

**Item 1 - Cover Page**

**HPS Investment Partners, LLC**

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Form ADV, Part 2A

June 23, 2016

This brochure provides information about the qualifications and business practices of HPS Investment Partners, LLC (“**HPS**”) and its Relying Advisers as defined in Item 4 below. If you have any questions about the contents of this brochure, please contact us at (212) 287-6767. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority.

HPS is a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

This brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein.

Additional information about HPS also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 - Material Changes**

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#### Item 4 - Advisory Business

HPS, formerly known as Highbridge Principal Strategies, LLC, was originally formed in March 2007 as a subsidiary of Highbridge Capital Management, LLC (“**HCM**”) to focus on managing debt and equity investments, including loan, mezzanine, credit opportunities, private equity, real assets, and other investments. HCM is a subsidiary of JPMorgan Asset Management Holdings Inc. (“**JPMAM**”), which in turn is a subsidiary of JPMorgan Chase & Co. (together with its affiliates, “**JPM**”). On March 31, 2016, the senior executives of HPS acquired HPS and its subsidiaries from JPMAM and HCM (the “**Transaction**”).

As a result of the Transaction, HPS is treated as independent from, and is no longer a related person of, JPM, although JPM currently retains, and may for a number of years continue to retain, a non-voting minority interest in HPS. As a result of such ownership interest, HPS will continue to be deemed indirectly controlled by JPM for purposes of the U.S. Bank Holding Company Act of 1956 (the “**BHCA**”).

HPS, a Delaware limited liability company, is a leading global investment platform with a focus on non-investment grade credit. With approximately 190 employees, including approximately 91 investment professionals as of March 31, 2016, HPS manages capital for sophisticated investors, including financial institutions, public and corporate pension funds, sovereign wealth funds, funds of funds, endowments, foundations and family offices, as well as individuals. HPS is based in New York with other office locations including in London, Houston, Chicago, and Sydney.

HPS operates in Australia pursuant to an exemption from registration granted by the Australian Securities and Investment Commission to those investment advisers already registered with the SEC.

HPS is a subsidiary of HPS Group Holdings II, LLC. Scott Kapnick, Chief Executive Officer of HPS, is a principal owner of HPS through intermediate entities. For information regarding the direct owners, indirect owners, and executive officers of HPS, please see Part 1A of this Form ADV.

HPS generally provides investment advisory services directly and through its subsidiary advisory entities to: (i) certain private investment vehicles including domestic and foreign partnerships and corporations sponsored and/or organized by HPS (“**HPS Funds**”); and (ii) separately managed accounts and single-investor vehicles that may be domestic or foreign partnerships or corporations each established by, or on behalf of, a single third party investor (or two or more affiliated third party investors) (“**Third Party Funds**” and together with HPS Funds, “**Clients**”). The following entities are advisory subsidiaries of HPS: (i) HPS Mezzanine Partners, LLC (“**HMP**”); (ii) HPS Mezzanine Partners II, LLC (“**HMPIT**”); (iii) HPS Mezzanine Management III, LLC (“**HMPMIII**”); (iv) HPS Opportunities SL Management, LLC (“**HPS-OSL**”); (v) Constellation Growth Capital, LLC (“**CGC**”); (vi) CVC III Partners LLC (“**CVC**”); and, (vii) HPS Investment Partners (UK) LLP (“**HPS-UK**”) (each, a “**Relying Adviser**” and collectively, the “**Relying Advisers**”). Please refer to Item 10 of this brochure for a more detailed discussion regarding the Relying Advisers. Unless specifically noted otherwise, the responses to this Form ADV Part 2A combine information about HPS and the Relying Advisers, and references herein to HPS generally mean HPS and its Relying Advisers, collectively.

HPS provides investment advisory services to the Clients pursuant to the investment objectives, strategies, and restrictions as set forth in each Client’s governing documents, which are received and agreed to by investors in the Clients prior to their investment in such Client and include, as applicable, an investment management agreement, organizational documents, offering documents, side letter agreements, and/or other documentation relevant to an investment in the Client, and together are collectively referred to as “**Governing Documents**.”

At the outset of their relationship with HPS, investor(s) in a Third Party Fund consult with HPS to establish customized investment guidelines applicable to HPS's management of the Third Party Fund's investment portfolio. Such guidelines may vary significantly among Third Party Funds with the same investment objective based on the specific needs of the underlying investor, or affiliated investors in a particular Third Party Fund. In all instances, the negotiated and tailored guidelines are agreed to in the relevant Third Party Fund's Governing Documents.

As disclosed to Clients in advance, however, without prior consultation with Clients, HPS will provide investment advisory services to additional Clients. Clients may also be solicited to invest in one or more HPS Funds.

HPS does not currently, but may in the future, participate in wrap fee programs.

For the avoidance of doubt, all information discussed above regarding the investment advisory services provided by HPS to a Client is qualified in its entirety by reference to the relevant Client's Governing Documents.

As of January 31, 2016, HPS managed \$23,865,900,000 of Client assets on a discretionary basis and \$0 of Client assets on a non-discretionary basis.

## **Item 5 - Fees and Compensation**

### **Fees Generally**

HPS establishes and, in limited circumstances, negotiates with investors in HPS Funds and Third Party Funds the precise amount of, and the manner and calculation of, advisory fees. HPS may rebate, reduce and/or waive some or all of its management fee and/or performance compensation, as applicable, with respect to any investor in an HPS Fund, and intends to rebate, reduce and/or waive some or all of its management fee and/or performance compensation with respect to, but not limited to, principals, employees, certain affiliates, and sourcing and operating partners of HPS as well as certain investment funds managed by HPS or its affiliates. Certain HPS Funds and Third Party Funds offer size-based fee reductions for investors in such funds.

HPS's fees for managing a Third Party Fund may be less than the fees it receives for managing similar strategies for an HPS Fund. Investors in Third Party Funds may be subject to higher fees and expenses than what they would incur if they were invested in an HPS Fund where the fees and expenses would be borne by multiple investors. The fees charged to Third Party Funds are individually negotiated with the underlying investor of the Third Party Fund and are established pursuant to such Third Party Fund's Governing Documents.

The receipt of fees that do not offset the advisory fees discussed in this Item 5 as well as below in Item 6, presents HPS with an incentive to maximize the amount of such fees and to cause applicable HPS Funds and/or Third Party Funds to make investments that could generate such fees even if HPS might not have otherwise made such investment for the Clients in the absence of such fees.

The management fees and/or performance compensation, as applicable, described under this Item 5 and in Item 6 below are deducted from Clients' assets for certain Clients, while other Clients, including certain Third Party Funds, are billed for such fees and compensation.

As discussed below, certain of the HPS Funds and Third Party Funds may make investments in collateralized loan obligation ("CLO") securities, particularly in equity or subordinated tranches, issued by CLOs for which HPS or an affiliate serves as collateral manager (each, an "**HPS CLO**"). To the extent a Client purchases CLO equity of an HPS CLO, it is expected that HPS or its affiliate, as the collateral manager, will reduce all or a portion of the fees paid by the Client at the CLO level or that HPS will reduce its advisory fees at the relevant Client level. Conflicts associated with an investment by a Client in an HPS CLO are discussed below in Item 11.

### **Management Fee**

#### *HPS Funds*

Per the relevant Governing Documents with each of the HPS Funds, HPS is paid a quarterly or monthly management fee generally at the beginning or end of each quarter or month. Certain HPS Funds pay a monthly management fee in arrears or a semi-monthly management fee in arrears at the end of the 15<sup>th</sup> day and the last day of each month. Generally, during the investment period of certain HPS Funds, the management fee is based on total commitments to or leveraged or unleveraged invested capital of the relevant HPS Fund and is generally comparable to a rate of between 0.50% and 1.50% on an annualized basis. Thereafter, the management fee is based on the outstanding leveraged or unleveraged invested capital of each HPS Fund and is generally comparable to a rate of between 0.50% and 1.50% on an annualized basis. The management fee for certain HPS Funds is calculated solely based on invested capital (inclusive of leveraged borrowings) regardless of whether the HPS Fund has completed its

investment period. The management fee of a certain HPS Fund is calculated solely based on total capital commitments (including unfunded commitments). Certain HPS Funds pay management fees based on the net assets of such HPS Funds and are equal to a rate of between 0.60% and 1.50% on an annualized basis. The management fee for certain HPS Funds includes a base management fee of 0.20% per annum and subordinated management fee of 0.30% per annum of the principal amount of the collateral obligations held by such HPS Funds, including collateral obligations obtained through the use of leverage, which are payable only to the extent that funds are available for such purpose in accordance with the priority of payments described in the applicable HPS Fund Governing Documents.

#### *Third Party Funds*

Per the relevant Governing Documents with each of the Third Party Funds, HPS is generally paid a management fee based on net assets or invested capital, which is payable monthly or quarterly and is equal to between 0.20% and 1.50% on an annualized basis.

### **Carried Interest**

#### *HPS Funds*

In addition, HPS and certain of its affiliates serve as the general partners, or act as special limited partners, of certain of the HPS Funds and are apportioned allocations of net profits, or “carried interest,” generally comparable to 20% of net profits, generally subject to or in excess of applicable hurdles or preferred rates of return to the investor.

#### *Third Party Funds*

In addition, for a certain Third Party Fund, an affiliate of HPS acts as special limited partner and is apportioned allocations of the net profits from the Third Party Fund’s investments, or “carried interest,” generally equal to 16% and subject to the applicable hurdles or preferred rates of return to the Third Party Fund’s underlying investor.

### **Incentive Fee**

#### *HPS Funds*

As discussed in more detail below in Item 6, with respect to certain HPS Funds, HPS receives an incentive fee generally between 5% and 20% of net profits subject to or in excess of applicable hurdles or preferred rates of return. With respect to certain HPS Funds, HPS is not entitled to receive any performance-based compensation.

#### *Third Party Funds*

Also as discussed in more detail below in Item 6, with respect to certain Third Party Funds, HPS receives an incentive fee generally payable annually or upon a distribution between 0% and 20% of the current income of the applicable Third Party Fund’s investment subject to applicable hurdles and preferred rates of return. With respect to certain Third Party Funds, HPS is not entitled to any performance-based compensation.

### **Additional Fees and Compensation**

Certain Clients must pay their management fees in advance. Such Clients may terminate their management agreements in accordance with the terms of such agreements and receive a prorated refund of any prepaid management fees.

Each of the Relying Advisers and any applicable general partners will be generally responsible for all of its respective normal overhead expenses, including compensation for employees, rent, utilities and other similar items.

In addition to the foregoing fees, HPS Funds and Third Party Funds, as appropriate, will generally pay offering and organizational expenses, including certain travel and entertainment expenses related to the affairs of the applicable Client, which may include expenses for the use of charter flights, first class or business class travel, and will bear customary operating and investment expenses, including, but not limited to:

- (i) all out-of-pocket expenses incurred in connection with the identifying, sourcing, making, holding, servicing, sale or proposed sale of any Client investment, such as retainers and success fees and other compensation paid to sourcing and operating partners (discussed below in Item 8), deal initiation expenses, professional (including consulting) fees and expenses, research and data fees (including news, market and quotation services), fees for pricing services, attending conferences (e.g., for analysts, industries or companies), lodging, travel, transportation, meals and related expenses (whether incurred working at the office after customary work hours or out of the office at any time), including any such expense associated with proposed investments that are ultimately not made by the Client (including those that would have been borne directly or indirectly by co-investors if the relevant investment and any co-investment had been completed);
- (ii) routine expenses of the Client that are not reimbursed by portfolio companies, including legal, compliance, auditing, accounting, consulting and financing fees, due diligence costs, taxes, and expenses relating thereto, the applicable management fee, the fees and other expenses of the Client's administrator, and expenses associated with the Client's financial statements and tax returns, expenses and costs in connection with any government and regulatory filings, Client or limited partner advisory committee meetings, annual meetings, costs of investor communications (including reports to investors) and other administrative expenses of the Client;
- (iii) the costs of all subsidiaries and other vehicles through which investments are held or managed, including costs associated with establishing and maintaining a permanent residence in certain jurisdictions (such as rent for office space, related overhead and employee salaries and benefits);
- (iv) all costs associated with borrowing and other costs of investments (including all direct expenses, investment expenses (e.g., brokerage commissions, exchange, clearing fees, interest expenses, clearing and settlement charges, custodial fees, and bank service fees));
- (v) all insurance, litigation-related and indemnification expenses incurred in accordance with, and subject to the limitations of, the Governing Documents of the Client;
- (vi) the Client's proportionate share of costs of organizing the Client, including legal expenses;



- (vii) unconsummated investment expenses and other charges for transactions as discussed below in Item 8;
- (viii) compensation paid to boards of directors, general partners or trustees of the Clients, as applicable; and
- (ix) extraordinary or non-recurring expenses (including, without limitation, indemnification expenses and advances of fees and expenses to indemnitees that may be subject to a right of indemnification under such Client's Governing Documents).

Subject to the paragraph below, investors in HPS Funds and Third Party Funds generally bear their allocable share of the above expenses in the following manner. To the extent any expenses are incurred on behalf of two or more Clients, such Clients generally bear their allocable share based on their respective capital commitments or net asset values, taking into account facts and circumstances as determined by HPS. Certain investment-related expenses, including those related to sourcing investment opportunities, are in some instances allocated based on the equity capital commitments of the relevant Clients, notwithstanding the fact that the investment itself may have been allocated based on equity commitments plus available leverage. In such circumstances, Clients that do not utilize leverage in their investment programs may be allocated a larger proportion of investment-related expenses relative to their investment allocation size, due to the effect of leverage enhancing investment allocations. Similarly, broken deal expenses are generally allocated based on facts and circumstances as determined by HPS. In some cases, such allocation may be based on the equity capital commitments of Clients, without regard to available leverage and the expected investment allocations that would have been made to such Clients had such investment been consummated. Lastly, in some cases, Clients that are organized to invest only to the extent of available capacity after investment allocations are made to other clients (e.g., to a reference fund) may not be allocated certain investment-related and other expenses (such as general investment sourcing expenses not associated with any particular investment), as there is no certainty that such Clients will receive an allocation with respect to any particular investment. In some circumstances, expenses may be allocated pro rata among all Clients within an investment strategy even if expenses were incurred only with respect to one or more specific Clients, or investors in such Clients.

Notwithstanding the foregoing, HPS may allocate any such expense on a basis other than as set forth above if HPS determines that such allocation would be more equitable. Additionally, where a Client owns an equity stake in a portfolio company, the value of its equity investment will be affected by expenses incurred by such portfolio company. Such expenses may include costs incurred by personnel of HPS and its affiliates in connection with board positions and other activities with respect to such portfolio company, including reimbursement for out-of-pocket expenses incurred in connection with such activities.

See Item 12 for more detail on HPS's brokerage practices.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

As described in the response to Item 5 above, HPS and its affiliates receive performance-based compensation from certain Clients. Certain employees of HPS manage both accounts that are charged a performance-based fee and accounts that are charged only an asset-based fee.

HPS may have a conflict of interest between its responsibility to act in the best interests of the Clients, on the one hand, and any benefit, monetary or otherwise, that may result to it or its affiliates from the operation of the Clients, on the other hand. For example, with respect to Clients from which HPS receives only an asset-based fee, HPS may have an interest in engaging in relatively safe investments in order to receive such asset-based fee. For those Clients for which HPS may only collect a management fee calculated based on the invested capital (including or excluding leveraged borrowings, as applicable) regardless of the point in the Client's investment period, HPS may have an interest to invest capital in investments for which it otherwise may not in order to receive such management fee or at a pace which HPS might not otherwise invest if management fees were based on capital commitments.

On the other hand, with respect to Clients from which HPS receives performance-based compensation (including the carried interest paid to the general partners or special limited partners affiliated with HPS), HPS may have an interest in engaging in riskier or more speculative investments than would be engaged in if the performance-based compensation did not exist in order to increase the potential compensation with respect to such Clients. HPS and its affiliates may also be incentivized not to permanently write down or write off or dispose of an investment that has poor prospects for improvement in order to receive ongoing management fees in respect of such investment and potential carried interest distributions if such asset appreciates in the future. In addition, the method of calculating the carried interest may result in conflicts of interest between HPS, on the one hand, and the investors, on the other hand, with respect to the management and disposition of investments. Additionally, the existence of a clawback obligation may create an incentive for HPS to defer the disposition of one or more investments if those investments would result in a realized loss, a return on investment that was less than the preferred return and/or the finalization of dissolution and liquidation of a private fund where a clawback obligation would be owed.

HPS may also have an incentive to favor a Client that pays performance-based compensation over a Client that pays asset-based fees only or pays lower performance-based compensation.

In order to seek to address the potential conflicts with respect to the management of one or more Clients, and as discussed in Item 11 below, HPS has developed policies and procedures that provide that HPS will allocate investment opportunities and make purchase and sale decisions among applicable Clients in a manner that HPS considers, in its sole discretion and consistent with the fiduciary obligation to each of the respective Clients, to be reasonable. In many cases, these policies may result in the pro rata allocation of limited opportunities across Clients, but in many other cases, the allocations may reflect numerous other factors based upon HPS's good faith assessment of the best use of such limited opportunities relative to the objectives, disclosure to and agreements with applicable Clients including limitations, including, in certain instances, the expectation that an investment will be allocated to a Client only to the extent available capacity exists, and requirements of each such Client and applying a variety of other factors, including those further described in each Client's Governing Documents.

## **Item 7 - Types of Clients**

As described in the responses to Items 4 and 5 above, HPS provides investment advisory services to: (i) HPS Funds; and (ii) Third Party Funds. Such Clients generally are domestic and foreign investment limited partnerships, companies, limited liability companies, trusts and other vehicles that are not registered or required to be registered under the U.S. Investment Company Act of 1940, as amended (the “**Company Act**”). In addition, the securities issued by the Clients are not registered or required to be registered under the Securities Act of 1933, as amended (the “**Securities Act**”), and are generally privately placed to qualified investors in the United States and elsewhere.

The investors in the Clients are primarily sophisticated investors, which include, but are not limited to, financial institutions, public and corporate pension funds, sovereign wealth funds, funds of funds, endowments, foundations and family offices, as well as individuals. All investors are subject to applicable suitability requirements.

Generally, the minimum initial investment amount for investors in the HPS Funds is between \$100,000 and \$10,000,000. The minimum initial investment amount generally can be waived at the discretion of the general partner, board of directors, trustees and/or administrator of each HPS Fund, but not below an amount required under applicable law.

### **Agreements with Certain Investors**

Certain investors in the HPS Funds or Third Party Funds have been granted one or more of the following rights with respect to their investments: (i) a reduced management fee and/or performance compensation; (ii) subject to certain terms, the right to receive improved fees, liquidity, information rights and other terms received by other investors; (iii) the right to receive certain additional information with respect to a certain fund; (iv) notification to the investor with respect to the investor’s ownership percentage of a certain fund; (v) limitation on the investor’s ownership percentage of a certain fund below certain thresholds; (vi) notification to the investor with respect to the ownership by benefit plan investors of a certain fund’s equity classes; (vii) certain limitations on an investor’s confidentiality obligations under a certain fund’s organizational documents pursuant to laws or regulations to which the investor is subject (such as the public information or “sunshine” laws); and (viii) an acknowledgement that such investor is entitled to sovereign status under U.S. federal, state or non-U.S. law.

In addition to the above, certain investors in the HPS Funds or Third Party Funds have been granted one or more additional rights with respect to their investments, including, but not limited to: (i) the right to opt out of the requirement to fund capital calls or otherwise be excused from participating in certain investments due to regulatory, tax or public policy or the investor’s internal considerations; (ii) the right to designate one member of an internal oversight committee; (iii) rights with respect to distributions in kind; (iv) rights with respect to transfers of interests; (v) the right to receive information regarding the investment and/or disposition strategy of the Client; and, (vi) the right to receive information regarding, and/or participate in, potential co-investment opportunities.

## **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

HPS combines a disciplined investment approach with a substantial platform for transaction sourcing. Through this platform, investment professionals expect to identify and invest in a select number of investment opportunities. HPS investment professionals seek to adhere to Clients' investment guidelines and employ HPS's core principles of investment analysis, due diligence, active portfolio management and risk management. While the methods of analysis will vary depending on the specific investment strategy, HPS's investment professionals endeavor to employ the following key tenets as part of their investment due diligence and monitoring process:

**Disciplined Screening Process.** The investment teams intend to adhere to a disciplined, focused investment screening and selection process with an emphasis on rigorous analysis and appropriate levels of due diligence. HPS's due diligence and risk management processes utilize and benefit from the substantial resources within HPS. HPS also retains on behalf of its Clients, in certain situations, external consultants, advisors and accountants to augment due diligence.

**Global Sourcing Platform.** HPS expects its investment selection process to be significantly enhanced by a global sourcing platform and will seek to build a strong pipeline of investment opportunities through the relationships of its investment professionals and HPS.

**Focusing on Fundamental Analysis, Due Diligence and Capital Preservation.** To an appropriate extent, each investment strategy, generally seeks to: (i) pursue investments where its investment professionals have conducted meaningful due diligence on the sector, the company, and its assets; and (ii) utilize information from its investment professionals' relationships with management teams, consultants, and industry experts. When deemed appropriate, the investment team will seek to incorporate into the due diligence process: (i) review of historical filings, financial information and other publicly-available information; (ii) assessment of financial projections, as appropriate; (iii) business and industry diligence including, where appropriate, meetings with senior management team, often in conjunction with retained third party experts; (iv) site/plant visits (where relevant and appropriate), in certain cases in conjunction with retained industry-specific independent engineers; (v) accounting and quality of earnings review, often through retention of external accountants; (vi) "channel checks" on the company, industry and management team, utilizing the investment professionals' relationships as well as the institutional relationships within HPS; (vii) background checks on senior management and members of the board of directors using external providers; and/or (viii) detailed legal analysis of the company and the investment documentation.

### **Investment Strategies**

HPS engages, on behalf of Clients, in one or more of the investment strategies summarized below. Further detail regarding the following investment strategies is included in each Client's Governing Documents.

HPS may and currently does allocate some or all of its management responsibilities to affiliated sub-advisers, including one or more of the Relying Advisers, pursuant to sub-advisory agreements.

**CLOs:** This strategy consists of structured credit vehicles that invest principally in floating rate secured corporate loans through a leveraged capital structure which seeks to benefit from low cost, long term, stable debt financing. This strategy is subject to certain thresholds, as is typical for CLOs, with respect to

collateral quality, asset-type concentration, geographic exposure, ratings, covenant terms, and coverage tests.

**Credit Opportunities:** The strategy seeks to generate attractive risk-adjusted returns with an emphasis on capital preservation. This strategy seeks to invest primarily in corporate debt instruments, including bank loans and high yield bonds and may also invest in other instruments, including equities, credit default swaps, structured credit instruments, and other derivative products. This strategy may also hedge its portfolio to reduce volatility and protect against systemic risks as well as enter into opportunistic short positions in specific circumstances.

**European Asset Value:** This strategy seeks to invest opportunistically over a cycle in a variety of performing and non-performing single assets, portfolios, and platforms with a primary focus on Europe. For performing assets and/or loans, the strategy focuses on acquiring and aggregating like assets with dedicated operating platforms and for non-performing loans, the strategy pursues complex, non-commoditized portfolios and utilizes operating platforms. Utilization of operating platforms provides the strategy with the ability to leverage sector and/or asset specific expertise, benefit from economies of scale, and seek multiple paths to exit scenarios.

**Leveraged Loans:** This strategy invests primarily in senior secured term loans. The strategy may also invest in: (i) second lien term loans, (ii) senior secured bonds, which typically (a) are first lien debt, (b) have a first lien on certain pieces of the issuer's assets, (c) have a second lien on all or certain of the issuer's assets, and/or (d) are a combination of the foregoing, and (iii) unsecured high yield bonds, which are debt obligations that are often subordinate in right of payment to senior secured term loans, senior secured bonds, and second lien term loans but are senior to equity in a leveraged capital structure. This strategy is similar to the Liquid Loans strategy described below, save for different exposure targets and specific investment guidelines.

**Liquid Loans:** This strategy provides exposure to a diversified, actively managed portfolio consisting primarily of broadly syndicated senior secured loans. This strategy is expected to invest mainly in senior secured term loans. The strategy may also invest in: (i) second lien term loans, (ii) senior secured bonds, and (iii) unsecured high yield bonds, which are debt obligations that are often subordinate in right of payment to senior secured term loans, senior secured bonds, and second lien term loans but are senior to equity in a leveraged capital structure. This strategy is similar to the Leveraged Loans strategy described above, save for different exposure targets and specific investment guidelines.

**Media, Communications and Technology Growth Equity:** This private equity strategy seeks significant long-term capital appreciation by making early- to late-stage investments in media, communications and technology-based companies both in the United States and internationally. This strategy generally seeks to make equity investments in portfolio companies with a focus on target portfolio companies that fit a specific profile within the media, communications, and technology industry sectors.

**Mezzanine Debt:** This strategy focuses on investments in privately offered mezzanine securities, which are fixed-income securities, such as debt or preferred stock, typically in conjunction with an equity component such as common stock, warrants or options. This strategy will consider a variety of transactions, including leveraged buyouts, recapitalizations, refinancings, restructurings, and acquisitions. This strategy makes investments in: (i) mezzanine securities, including subordinated debt securities, preferred equity securities, convertible securities, participations and other fixed-income securities and obligations; (ii) equity and equity-related securities, including common stock, warrants, and other securities with equity-like features related to the applicable Client's investments; and, (iii) in select situations, in senior debt instruments and other opportunistic investment including unitranche securities,

structured debt tranches, convertible debt, convertible preferred stock, and equity investments unrelated to these instruments. The majority of investments are expected to be in securities of mid-cap companies in North America and Europe, although investment may be made in Latin America, Asia, and elsewhere globally.

**Opportunistic CLO:** This strategy makes investments in CLO tranches generally managed by unaffiliated third party CLO managers in either the primary or secondary market but also has the ability to invest in CLOs managed by HPS or its affiliate. The strategy is focused on providing credit exposure diversification based on the underlying assets of the CLO tranche as well as diversification with respect to manager style due to investments in a variety of CLO managers. This strategy may, at times, focus solely on investing in CLO tranches of a specific rating. The strategy seeks to achieve current income and preservation of capital consistent with investments in rated notes (i.e., unsecured subordinated notes and preference shares and mezzanine notes) of CLOs.

**Real Estate:** This strategy utilizes a strategic relationship with a third party real estate developer, owner, and operator in the United States to invest in real estate debt securities. The strategic relationship primarily pursues gap financing for real estate projects in transition (re-development, conversion, new construction, etc.) through both unitranche loans and mezzanine financing. This strategy invests in a variety of transition financing for real estate projects, a majority of which are expected to be sponsored by third party equity partners and/or developers. The real estate projects generally include redevelopment, conversions, and new development within the residential, office, retail, and hotel markets both in the United States and internationally.

**Specialty Loans:** This strategy primarily invests in newly originated secured debt. Investments made under this strategy are typically floating-rate fixed-income instruments and typically represent the most senior portion of the issuer's capital structure, ahead of any mezzanine, high yield bonds and equity tranches. The term "secured debt" refers to debt that is secured by a security interest in one or more assets of the issuer, without reference to the legal form of the debt contract (loan, bond, note or otherwise).

**Strategic Capital Partners:** This strategy seeks: (i) investments alongside Clients that employ the above listed strategies; (ii) opportunistic transactions sourced by HPS that are outside the mandates of the above listed strategies; and, (iii) investment opportunities introduced by third party investors of the strategy and other parties related to such investors.

**Leverage:** In addition, HPS utilizes leverage in certain of its investment programs. Leverage may take a variety of forms, including loans made by banks with capital commitments or assets as security, by prime brokers for the purchase or sale of total return or credit default swaps, as a result of the low margin requirements of certain futures contracts and other derivative investments, and the use of inherently leveraged investments. As discussed in more detail below, depending on the extent of the leverage utilized for a Client, its assets will increase or decrease at a greater rate than if extensions of credit were not utilized. The Client may purchase or sell short securities without an offsetting position in a related security when it is determined that a particular security is undervalued or overvalued. The Client may engage in interest rate hedging using swaps, treasuries, interest rate futures or other derivative instruments. Additionally, the Client may employ single name and index credit derivatives in an attempt to hedge credit exposure.

### **Risk Factors**

The investment strategies employed by HPS on behalf of its Clients involve substantial risks, including the risk of loss of an investor's entire investment. The following is a summary of the material risks associated with the investment strategies employed by HPS. Certain of the risks discussed below apply

more specifically to particular investment strategies or investments in different types of securities or other investment types than others that investors should be prepared to bear. The risks involved for each investor will vary depending on the Client's investment strategy and types of investments in its portfolio based on what has been agreed to within its Governing Documents with HPS. Although it is comprehensive, the below list is not intended to be exhaustive and therefore not all possible risks have been described. More detailed information with respect to the following risk factors and the applicability of the following risks factors to each Client managed by HPS is included in each Client's Governing Documents.

*Risks Related to an Investment in an HPS Fund or Third Party Fund:*

**Inability of HPS Funds or Third Party Funds to Meet their Investment Objectives.** HPS cannot provide assurances that it will be able to identify, choose, make or realize investments of the type targeted for its Clients, or that any Client will be able to invest fully its committed capital. There is also no guarantee that HPS will be able to source attractive investments for its Clients within a reasonable period of time. There can be no assurance that Clients will be able to generate returns for their investors or that returns will be commensurate with the risks of the investments. Clients may not be able to achieve their investment objectives and investors may lose some or all of their invested capital.

**Dependence on the Investment Team.** The success of Clients depends in substantial part on the skill and expertise of the Clients' investment team. Although HPS believes the success of its Clients is not dependent upon any particular individual, there can be no assurance that the members of a particular investment team will continue to be affiliated with HPS throughout the life of a Client or will continue to be available to manage said Client. The unavailability of members of a particular investment team to manage a Clients' investment program could have a material adverse effect on said Client. Further, the success of certain Clients related to a strategy that may not have a significant operating history or investing track record depends in substantial part on the skill and expertise of the investment teams and other relevant investment professionals of the Clients, which are not in all instances solely focused on a single investment strategy.

**Prior HPS Funds' or Third Party Funds' Results Not Indicative of Future Performance.** The performance of earlier investment funds or accounts managed by HPS, including predecessor Clients of established investment strategies, is not indicative of the expected performance of any current or future Client, since Clients will make different investments than earlier Clients. Accordingly, the performance of earlier Clients, including predecessor Clients of established investment strategies, should not be construed as a projection of a Clients' future performance. In addition, in certain circumstances, a predecessor Client of established investment strategies may not have completed its investment cycle at a time when it is raising a successor Client so actual returns to the investors of such predecessor Clients of established investment strategies may differ materially from those described in a successor Client's Governing Documents.

**Competitive Investment Environment.** The business of investing in the types of investments contemplated by Clients is highly competitive and involves a high degree of uncertainty. Market competition for investment opportunities includes other mezzanine funds, hedge funds, private equity funds, and other private investors. Some of these competitors may have access to greater amounts of capital and to capital that may be committed for longer periods of time or may have different return thresholds than Clients, and thus these competitors may have advantages not shared by Clients. In addition, competitors may have incurred, or may in the future incur, leverage to finance their debt investments at levels or on terms more favorable than those available to Clients. Strong competition for investments could result in fewer investment opportunities for the Clients, as certain of these competitors have established or are establishing investment vehicles that target the same or similar investments that

Clients intend to purchase. Over the past several years, many investment funds have been formed with investment objectives similar to those of Clients, and many such existing funds have grown in size. These and other investors may make competing offers for investment opportunities identified by the relevant general partners or investment managers which may affect Clients' ability to participate in attractive investment opportunities. Moreover, identifying attractive investment opportunities is difficult and involves a high degree of uncertainty. HPS may identify an investment that presents an attractive investment opportunity but may not be able to complete such investment in a manner that meets the objectives of the Clients. As discussed in Item 5 above, Clients may incur significant expenses in connection with the identification of investment opportunities and investigating other potential investments that are ultimately not consummated, including expenses related to due diligence, transportation and legal, accounting and other professional services as well as the fees of other third-party advisors.

**Investment Illiquidity; Restrictions on Transfer or Withdrawal.** An investment in a Client is suitable only for certain sophisticated investors that have no need for immediate liquidity in respect of their investment and who can accept the risks associated with investing in illiquid investments. Investors will not be permitted to transfer their interests without the consent of the applicable general partner, which may be granted or withheld in such general partner's discretion, and which consent the general partner expects to withhold if it determines that such transfer would result in any risk that the relevant Client would be treated as a "publicly traded partnership" taxable as corporation for U.S. federal income tax purposes or would result in any adverse tax consequences to such Client (or to its investors generally). Furthermore, the transferability of the interests will be subject to certain restrictions contained in the applicable Governing Documents and may be affected by restrictions on resale imposed under applicable securities laws. A public market does not currently exist for the interests and one is not expected to develop.

**Indemnification.** As applicable, Clients are generally required to indemnify their general partners, their investment managers, members of their Client or limited partner advisory committees and each other person specified in the applicable Governing Documents for liabilities incurred in connection with such Client's activities, except in certain circumstances. Such liabilities may be material and may have an adverse effect on the returns to the investors. The indemnification obligation of the Client would be payable from the assets of the Client, including the unfunded commitments of the investors. If the assets of the Client are insufficient, certain distributions previously made to the investors are subject to recall by the applicable Client in order to satisfy its indemnification obligations. Such distributions may be eligible for recall by the Client even though the distribution had been made in prior years, and such recall is likely to reduce the returns recognized by the investors in the Client.

**Defaulting Investors.** For Clients that are structured as closed-ended funds, the failure of an investor to fund all or any portion of a drawdown (including in respect of fees and/or including, without limitation, indemnification obligations) when due, will cause such investor to be in default. The amount that such investor failed to contribute will generally accrue interest. In addition, the general partner of the applicable Client may exercise other remedies available by law or in equity against a defaulting investor in accordance with the Governing Documents, including, as the case may be, (i) causing the investor to forfeit certain distributions; (ii) excluding the investor from future investments; (iii) reducing the balance of the investor's capital account in the Client; (iv) causing a forced sale of the investor's interest; (v) permitting one or more investors of such Client to cover such amount that a defaulting investor failed to contribute; (vi) admitting a new investor to the Client; (vii) causing the Client to borrow in respect of such amount that a defaulting investor failed to contribute; and/or (viii) taking any other action as HPS in good faith deems prudent in such situation, including, but not limited to, liquidating the Client if other remedies are determined to not be reasonably practicable based on legal, regulatory, or other considerations. Furthermore, in the event of a shortfall by one or more investors in a Client, such Client's



general partner may cause other investors in the Client to increase their capital contributions proportionately in respect of such shortfall. In addition, if investors fail to fund their commitments when due, a Client's ability to complete its investment program or otherwise to continue operations may be substantially impaired. A default by a substantial number of investors or by one or more investors who have made substantial commitments to the Client may limit opportunities for investment diversification and reduce returns to the Client.

**Valuation of Assets.** Certain securities and other assets in which Clients may directly or indirectly invest, including investments in senior debt, are not expected to have a readily ascertainable market value and, as appropriate, will be valued by HPS in accordance with its established valuation policies. When HPS determines that the market price does not fairly represent the value of an investment, HPS, as appropriate, will value such investment at fair value as it reasonably determines. HPS has a conflict of interest in providing such valuations. In particular, where applicable, a predecessor funds' performance information related to unrealized investments is based on HPS's valuation of such investments. Independent appraisals of such investments are typically not obtained. Further, because of the overall size and concentrations in particular markets, the maturities of positions that may be held by Clients from time to time and other factors, the liquidation values of Clients' investments may differ significantly from the interim valuations of these investments derived from the valuation methods described in HPS's established valuation policies. If HPS's valuation should prove to be incorrect, the stated value of the Clients' investments could be adversely affected. HPS may delegate its valuation responsibilities to any other person in its discretion. Absent bad faith or manifest error, valuation determinations of HPS (or its delegate) will be conclusive and binding on Clients. In addition, the relevant general partners or special limited partners will not receive carried interest until the investors receive distributions equal to their share of permanent write-downs and write-offs. This creates an incentive for the relevant general partners or special limited partners and HPS to avoid writing down the value of assets or writing off assets that are not readily marketable or difficult to value in order to receive carried interest earlier and higher management fees.

HPS is engaged in advisory and management services for multiple Clients. In connection with these activities, HPS is required to value assets, including in connection with managing or advising Clients. In this regard, certain business units within HPS may share information regarding valuation techniques and models or other information relevant to the valuation of a specific asset or category of assets, although HPS is under no obligation to engage in such information sharing. HPS will value Clients' investments according to its established valuation policies as disclosed in the relevant Governing Documents, and may value an identical asset differently than other units within HPS (e.g., when an asset does not have a readily ascertainable market price).

**No Right to Control the HPS Funds' or Third Party Funds' Operations.** Clients will be managed exclusively by HPS and its affiliates. Investors will not make decisions with respect to the management, disposition or other realization of any investment, the day-to-day operations of the Clients, or any other decisions regarding the Clients' business and affairs, except for limited circumstances set forth in the relevant Governing Documents. Specifically, investors will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding investments by the Clients. Investors should expect to rely solely on the ability of HPS and its affiliates with respect to the Clients' operations.

**Recourse to the HPS Funds' or Third Party Funds' Assets.** The assets of each Client, including any investments made by and any capital held by such Client, are available to satisfy all liabilities and other obligations of such Client. If any Client becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to such Client's assets generally and may not be limited to any particular asset, such as the investment giving rise to the liability. In addition, to the extent the

borrowings of a Client and one or more other Client are cross-collateralized, such Client (and the partners of such Client) will be required to satisfy the other Clients' obligations (and vice versa).

**Expedited Investment Decisions.** Investment analyses and decisions by HPS may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to HPS at the time of making an investment decision may be limited or HPS may not have the time to adhere to its typical due diligence process. Therefore, no assurance can be given that HPS will have knowledge of all circumstances that may adversely affect an investment. In addition, HPS may rely upon independent consultants and other sources in connection with its evaluation of proposed investments, and no assurance can be given as to the accuracy or completeness of the information provided by such independent consultants or other sources or to the Clients' right of recourse against them in the event errors or omissions do occur.

**No Registration of the HPS Funds or Third Party Funds or Interests.** None of the Clients are registered as investment companies under the Company Act, in reliance upon an exemption available to privately offered investment companies and, accordingly, the provisions of the Company Act are not applicable to the Clients. In addition, none of the interests in any of the Clients have been and will not be registered under the laws of any jurisdiction (including the Securities Act), the laws of any state of the United States, or the laws of any non-U.S. jurisdiction, and are being offered in reliance upon an exemption from such laws. None of the interests in any of the Clients have been recommended by any U.S. federal or state, or any non-U.S., securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the relevant Client's Governing Documents. Any representation to the contrary is a criminal offense.

**Service Providers Generally.** Clients may be dependent upon certain third-party service providers, such as prime brokers, custodians, banks, sourcing or operating partners, and other service providers retained on behalf of or providing services to Clients (referred to within this Item 8 as "**Service Providers**"). Errors are inherent in the business and operations of any business, and such errors or misconduct could have a material adverse effect on Clients and the investors' investments therein. At any given time, certain Clients' securities and other assets may be maintained with brokerage firms which do not separately segregate such assets as would be required in the case of registered investment companies. Under the provisions of the U.S. Securities Investor Protection Act of 1970, as amended, the bankruptcy or failure of any such brokerage firm is likely to have a greater adverse impact on Clients than would be the case if custody of such securities and other assets was maintained in accordance with the requirements applicable to registered investment companies. There is also the risk that a custodian could convert to its own use, assets committed to it by Clients. In addition, service providers may also provide services to other investment firms and investment vehicles with similar investment programs and strategies and, accordingly, may have conflicts of interest in providing services to Clients.

**Rights against Third Parties, including Third Party Service Providers.** Clients are reliant on the performance of third party service providers, including HPS, an administrator, auditors, and legal advisors. Further information in relation to the duties and roles of certain of these Service Providers is provided in the relevant Governing Documents. In most instances, each investor's contractual relationship in respect of its investment in a Client is with the applicable Client only and investors of the applicable Client are not in contractual privity with the Service Providers of that HPS Client. Therefore, generally, no investor will have any contractual claim against any Service Provider with respect to such Service Provider's default or breach. Accordingly, investors must generally rely upon HPS or the relevant general partner to enforce the Clients' rights against the Service Providers. In certain circumstances, which are generally not expected to prevail, investors may have limited rights to enforce the Clients' rights on a derivative basis or may have rights against Service Providers if they can establish that such Service Providers owe duties to the investors. In addition, as discussed above, investors will have no right

to participate in the day-to-day operation of the Clients and decisions regarding the selection of Service Providers. Rather, HPS or the relevant general partner will select Clients' Service Providers and determine the retention and compensation of such providers without the review by or consent of the investors. The investors must therefore rely on the ability of HPS and the relevant general partner to select and compensate Service Providers and to make investments and manage and dispose of investments.

**Counterparty Risk.** Clients will be subject to various counterparty risks. For example, the Clients may effect a portion of their transactions in 'over-the-counter' or 'interdealer' markets or through private transactions. The participants in such markets and the counterparties in such private transactions are typically not subject to credit evaluation and regulatory oversight as are members of 'exchange based' markets. This may expose the Clients to the risk that a counterparty will not settle a transaction because of a credit or liquidity problem, thus causing the Clients to suffer losses. Such 'counterparty risk' is accentuated for contracts with longer maturities where events may intervene to prevent settlement or where the Clients have concentrated their transactions with a single or small group of counterparties. Furthermore, upon the bankruptcy, insolvency or liquidation of any counterparty, the Clients may be deemed to be a general unsecured creditor of such counterparty and could suffer a total loss with respect to any positions and/or transactions with such counterparty. In the current market conditions, counterparty risk is increased and more difficult to predict. In addition to heightened risk of bankruptcy, there is a risk that counterparties may have their assets frozen or seized as a result of government intervention or regulation. The Clients are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty.

**Action of an Agent.** Investments made by certain of the Clients will frequently be negotiated and structured by a syndicate of lenders (the "**Lenders**") consisting of commercial banks, investment banks, thrift institutions, insurance companies, finance companies or other financial institutions or industry participants, one or more of which (the "**Agent**") will administer such investments on behalf of all of the Lenders. Clients generally will rely on the Agent to collect its portion of the payments on such an investment. Furthermore, Clients will rely on the Agent to use appropriate creditor remedies against the borrower. Typically, the Agent is given broad discretion in enforcing the credit agreement, and is obligated to use only the same care it would use in the management of its own property. In the event that an Agent becomes insolvent, or has a receiver, conservator or similar official appointed for it by the appropriate bank regulatory authority or becomes a debtor in a bankruptcy proceeding, assets held by the Agent under a loan agreement should remain available to Lenders. If, however, assets held by the Agent for the benefit of the Lenders were determined by an appropriate regulatory authority or court to be subject to the claims of the Agent's general or secured creditors, Clients might incur certain costs and delays in realizing payment on a loan held by an issuer or borrower or suffer a loss of principal or interest.

**Use of and Payment of Fees of Sourcing or Operating Partners.** HPS has historically worked, and intends to continue to work, with sourcing or operating partners, including with respect to particular types of investments or particular sectors to provide asset management and other services to Clients, portfolio companies and/or the underlying assets in which a Client invests. In addition, Clients may engage operating partners to source investments, and in some cases the sourcing partner may thereafter be engaged to provide asset management and/or other services with respect to such investment. These arrangements may be structured as joint ventures or contractual service provider relationships. Sourcing partners and operating partners are independent contractors engaged for particular purposes in connection with the Clients and/or certain of their projects, and are not part of the Affiliated Group (as defined in Item 11 below). Where a sourcing partner is engaged, HPS may not have the opportunity to diligence the individual investments in which Clients participate and, instead, will be relying on its contractual relationship with, and the ongoing diligence of, the sourcing partner. In certain circumstances, HPS may commit to invest in a pre-agreed number of investments (or target dollar amount) negotiated by the

sourcing partner. Investors should be aware that sourcing partners and operating partners will not owe any fiduciary duties to the Clients or their investors. In some cases, employees of operating partners and/or Service Companies (defined below) may become employees of a portfolio company or vice versa. In addition, certain of the employees of an operating partner or Service Company may formerly have been employees of HPS or its affiliates.

Clients or portfolio companies, as the case may be, may pay retainers, origination, closing, performance, asset management or other fees to sourcing partners and/or operating partners and may reimburse the operating partner for expenses. Any fees paid, or expenses reimbursed, to an operating partner will be borne by Clients or the portfolio companies, as the case may be, and will reduce Client returns in connection with the applicable investment. These fees and expenses, which may be substantial, will be in addition to the relevant management fee and Client expenses, and will not be shared with investors through a management fee offset or otherwise. Any retainer fees may be netted against an origination or closing fee, if applicable, in connection with the related investment. However, as discussed elsewhere in this Item 8 as well as in Item 5 above, if no such investment is consummated, Clients will bear any retainer amounts as an expense. In addition, to the extent the compensation of a sourcing partner or operating partner is based on the performance of the relevant investments, the sourcing partner or operating partner may have an incentive to seek riskier investments than it would have under a different compensation structure. Also, sourcing partners and/or operating partners may be granted the right to commit capital to Clients without being subject to management fees and/or performance compensation.

**Risks Associated with Service Companies.** Certain Clients are expected to acquire or appoint from time to time service companies, including affiliates of HPS (the “**Service Companies**”), to act as the servicers of specific assets owned, directly or indirectly, by the Clients. Clients will depend upon the diligence, skill and business relationships of the Service Companies. Key employees of a Service Company may depart at any time, subject to contractual notice periods and non-compete provisions, if any. The departure of a significant number of the employees of a Service Company could therefore have a materially adverse effect on the Clients’ ability to achieve their investment objective. Service Companies are not expected to provide services to the Clients on an exclusive basis. In addition, the historical performance of a Service Company is not indicative of its future performance, and may vary as a result of an adverse development in the Service Company’s business, an economic downturn or legal, tax or regulatory changes. Service Companies may operate at a loss, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or experience financial distress.

The servicing agreements between Clients and the Service Companies will provide for the payment of servicing fees, determined on a case-by-case basis, in accordance with one or more of the methods described in the relevant Governing Documents. As part of this compensation, Service Companies may receive fees based on the performance of the assets that they service. Fees paid to a Service Company that is an affiliate of HPS will be on an arm’s-length basis, in consultation with the relevant Client(s) and/or Client or limited partner advisory committee(s).

**Transfer of Interests in Service Companies.** Upon or prior to the termination of certain of the Clients, if said Clients hold ownership interests in any Service Company, it is the intention of Clients to transfer such ownership interests to a successor fund in consultation with the relevant Client(s) and/or Client advisory committee(s) and any limited partner advisory committee of such successor fund for a price equal to the fair value of such Service Company, which value will be determined using valuations obtained from one or more third party valuation agents. In addition, one or more such Service Companies may be disposed of in other ways from time to time, such as by sale to a third party buyer. However, although the relevant Clients may transfer any Service Company to a successor fund or a third party, there is no guarantee that such successor fund or third party will purchase the Service Company, or that a Service Company will ultimately be purchased at any profit to Clients.

**Incentive Fees of Service Companies and Operating Partners.** Service Companies and operating partners may receive compensation based on, among other things, the performance of the assets that they service or the investments that they identify. Therefore, it is possible that certain Service Companies or operating partners may receive incentive compensation from the applicable Clients, even though said Clients, as a whole, do not have net capital appreciation. Such compensation arrangements may create an incentive to make investments or investment decisions that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, because performance-based compensation may be calculated on a basis which includes unrealized appreciation of Clients' assets, such performance-based compensation may be greater than if such compensation were based solely on realized gains. In addition, the existence of such incentive fees and other fees, such as management fees based, for example, on the value of assets managed, result in the applicable Clients paying fees twice, once to HPS in the form of management fees and once to the Service Company or operating partner to service or manage the same assets.

**Protection of Confidentiality by Investors.** Except with respect to certain tax-related matters, investors will be required to keep confidential information relating to the applicable Clients (including information relating to the investors and investments and communications from HPS or the relevant general partner) and/or their investment results and expectations thereof. To protect the sensitive nature of this information, HPS and its affiliates may generally make certain confidential information unavailable to certain or all investors, in some cases based on the status of those investors.

**Investor Due Diligence Information.** HPS and the applicable general partners will make available, prior to the closing of any applicable Client, to each prospective investor the opportunity to ask questions of, and receive responses from, a representative of HPS and the relevant general partners concerning the terms and conditions of an investment in the applicable Client and to obtain any additional information, if HPS or the relevant general partners possess such information or can acquire it without unreasonable effort or expense. Due to the fact that different potential investors may ask different questions and request different information, HPS or the relevant general partners may provide certain information to one or more prospective investors that they do not provide to all of the prospective investors. None of the responses or additional information provided is or will be integrated into the applicable Governing Documents.

**Systems Risks.** Clients depend on HPS to develop and implement appropriate systems for its activities. Clients may rely on computer programs to evaluate certain securities and other investments, to monitor their portfolios, to trade, clear and settle securities transactions and to generate asset, risk management and other reports that are utilized in the oversight of the Clients' activities. In addition, certain Clients' operations interface with or depend upon systems operated by third parties, including loan servicers, custodians and administrators, and HPS may not always be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain defects, failures or interruptions, including, but not limited to, those caused by 'hacking' or other security breaches, computer 'worms,' viruses and power failures. Such failures could cause settlement of trades to fail, lead to inaccurate accounting, recording or processing of trades and cause inaccurate reports, which may affect a Client's ability to monitor its investment portfolio and its risks. Any such defect or failure could cause Clients to suffer financial loss, disruption of its business, liability to investors or third parties, regulatory intervention or reputational damage.

**Cyber Security Breaches and Identity Theft.** HPS's and portfolio companies' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although HPS has implemented various measures to

manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, HPS, Clients and/or a portfolio company may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in HPS's, Client's and/or a portfolio company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm HPS's, Client's and/or a portfolio company's reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect their business and financial performance.

*Risks Related to the Trading Instruments of the HPS Funds and Third Party Funds:*

For the avoidance of doubt, the below is a list inclusive of potential risk factors related to all HPS investment strategies generally and, as such, applicability will be dependent on the specific investment mandate.

**Publicly Traded Securities.** Clients may invest in publicly traded equity and debt securities. Some of these securities may be low rated or unrated and illiquid. The value of equity securities generally will vary with the performance of the issuer and movements in the equity markets. These investments are subject to certain risks, including the risk of loss from counterparty defaults and the risks arising from the volatility of the global fixed-income and equity markets. When buying a publicly traded security, Clients may be unable to obtain financial covenants or other contractual rights that the Client might otherwise be able to obtain in making privately-negotiated investments. Moreover, Clients may not have the same access to information in connection with investments in public securities, either when investigating a potential investment or after making an investment, as compared to a privately-negotiated investment. Publicly traded securities that are rated by rating agencies are often reviewed and may be subject to downgrade, which generally results in a decline in the market value of such security. Furthermore, Clients may be limited in their ability to make investments and to sell existing investments in public securities because HPS may have material, non-public information regarding the issuers of those securities or as a result of other HPS policies, as the case may be. Accordingly, there can be no assurance that Clients will make investments in public securities or, if they do, as to the amount they will invest. The inability to sell securities in these circumstances could materially adversely affect the investment results of Clients. Further, no assurances can be given that the ratings on such securities accurately reflect their risk profiles.

**High Yield Debt.** Clients may invest a portion of its assets in "higher yielding" (and, therefore, generally higher risk) debt securities. In most cases, such debt will be rated below "investment grade" or will be unrated and face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments. The market for high-yield securities has experienced periods of volatility and reduced liquidity. The market values of certain of these debt securities may reflect individual corporate developments. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of these debt securities.

**Nature of Fixed-Income Securities.** Fixed-income securities in which a Client invests may be unsecured, whereas all or a significant portion of the issuer's senior indebtedness may be secured. In such situations, the ability of the Client to influence a portfolio company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. Investments in fixed-income securities may be subject to early redemption features, refinancing options,

prepayment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by a Client earlier than expected.

**Bank Loans.** Bank loans and participations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of Clients to directly enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such loan obligation, or enforce any rights of set-off against the obligor.

**Senior Secured Loans.** Senior secured loans and participations are subject to risks, including: (i) the possible invalidation, avoidance, unwinding or subordination of an investment transaction; (ii) so-called lender liability claims; (iii) environmental liabilities; (iv) limitations on the ability to directly enforce compliance by the obligor with the terms of the loan or credit agreement or enforce (or retain all the proceeds realized from) any rights of set-off against the obligor; and (v) the possibility of being outvoted by other lenders in syndicated senior secured loans on important issues. In addition, these investments may be subject to the risk that the Clients' security interests in the underlying collateral are not properly or fully perfected. Compounding these risks, the collateral securing debt investments will often be subject to casualty or devaluation risks. In addition, certain Clients may invest in senior loans that, unlike typical senior loans, have limited mandatory amortization requirements. Lastly, the characterization of an investment as senior debt or senior secured debt does not mean that such debt will necessarily have repayment priority with respect to all other obligations of a portfolio company. Portfolio companies may have, and/or may be permitted to incur, other debt and liabilities that rank equally with or senior to the senior loans in which the Clients invest.

**Subordinated Debt.** Clients may invest in subordinated debt. If a portfolio company defaults on such debt or on debt senior to a Client's investment, or in the event of the bankruptcy of a portfolio company, the investment held by such Clients will be recovered only after the senior debt is repaid in full. Under the terms of typical subordination agreements, senior creditors may be able to block the acceleration of the subordinated debt or the exercise by holders of subordinated debt of other rights they may have as investors. Accordingly, Clients may not be able to take the steps necessary or sufficient to protect their investments in a timely manner or at all. In addition, subordinated debt may not always be protected by financial covenants or limitations upon additional indebtedness and may not be rated by a credit rating agency. If a portfolio company declares bankruptcy, Clients may not have full or any recourse to the assets of the portfolio company or the assets of the portfolio company may not be sufficient to repay the Clients' investments in full. Further, HPS's ability to amend the terms of the Clients' investments, assign the investments, accept prepayments, exercise their remedies (through "standstill periods") and control decisions made in bankruptcy proceedings may be limited by intercreditor arrangements if debt senior to the Clients' investments exists. The level of risk associated with investments in subordinated debt increases if such investments are in distressed or below investment grade issuers.

**Subordinated Debt Tranches.** Certain Clients may make opportunistic investments in securities, in particular in subordinated and equity tranches, issued by CLOs, including CLOs for which HPS or its subsidiary acts as the collateral manager. Investments in CLO securities are complex and are subject to a number of risks related to, among other things, changes in interest rates, the rate of defaults and recoveries in the collateral pool, prepayment rates, terms of loans purchased to replace loans in the collateral pool which have pre-paid, the exercise of remedies by more senior tranches and the possibility that no market will exist when Clients seek to sell their interests in CLO securities. If a CLO fails to satisfy one of the coverage tests provided in its indenture, all distributions on those CLO securities held

by the Clients will cease until that CLO brings itself back into compliance with such coverage tests. CLO securities represent leveraged investments in the underlying collateral held by the CLO issuer. The use of leverage creates risk for the holders because the leverage increases their exposure to losses with respect to the collateral. As a result, the occurrence of defaults with respect to only a small portion of the collateral could result in the substantial or complete loss of the investment in the CLO securities. Payments of principal of, and interest on, debt issued by CLOs, and dividends and other distributions on subordinated and equity tranches of a CLO, are subject to priority of payments. CLO equity is subordinated to the prior payment of all obligations under debt securities. Further, in the event of default under any debt securities issued by a CLO, and to the extent that any elimination, deferral or reduction in payments on debt securities occurs, such elimination will be borne first by CLO equity and then by the debt securities in reverse order of seniority. Thus, the greatest risk of loss relating to defaults on the collateral held by CLOs is borne by the CLO equity.

**CLOs.** As mentioned above, certain Clients may invest (including “equity” or residual tranches) in CLO products and other securitizations, which are generally limited recourse obligations of the issuer (“**Securitization Vehicles**”) payable solely from the underlying assets (“**Securitization Assets**”) of the issuer or proceeds thereof. Consequently, holders of equity or other securities issued by Securitization Vehicles must rely solely on distributions on the Securitization Assets or proceeds thereof for payment in respect thereof. The Securitization Assets may include, without limitation, broadly-syndicated leverage loans, middle-market bank loans, collateralized debt obligation debt tranches, trust preferred securities, insurance surplus notes, asset backed securities, mortgages, real estate investment trusts, high-yield bonds, mezzanine debt, second-lien leverage loans, credit default swaps and emerging market debt and corporate bonds, which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. Securitization Assets are typically actively managed by an investment manager, and as a result the Securitization Assets will be traded, subject to rating agency and other constraints, by such investment manager. The aggregate return on the CLO equity securities will depend in part upon the ability of each investment manager to actively manage the related portfolio of Securitization Assets.

The applicable Client’s investment strategy with respect to certain types of investments may be based, in part, upon the premise that certain investments (either held directly or through a CLO) that are otherwise performing may from time to time be available for purchase by the Client at “undervalued” prices. Purchasing interests at what may appear to be “undervalued” or “discounted” levels is no guarantee that these investments will generate attractive risk-adjusted returns to the Client or will not be subject to further reductions in value. No assurance can be given that investments can be acquired at favorable prices or that the market for such interests will continue to improve since this depends, in part, upon events and factors outside the control of HPS.

**Subordination of CLO Equity.** Payments of principal of, and interest on, debt issued by CLOs, and dividends and other distributions on unsecured subordinated notes and preference shares (“**CLO Equity**”) are subject to priority of payments. CLO Equity is subordinated to the prior payment of all obligations under debt securities. Further, in the event of default under any debt securities issued by a CLO, holders of CLO Equity generally have no right to determine the remedies to be exercised. To the extent that any elimination, deferral or reduction in payments on debt securities occurs, such elimination will be borne first by CLO Equity and then by the debt securities in reverse order of seniority. Thus, the greatest risk of loss relating to defaults on the collateral held by CLOs is borne by the CLO Equity. To the extent that a default occurs with respect to any collateral and such collateral is sold or otherwise disposed of, it is likely that the proceeds of such sale or other disposition will be less than the unpaid principal and interest on such collateral. Excess funds available for distribution to the CLO Securities will be reduced by losses occurring on the collateral, and returns on the CLO Equity will be adversely affected.



**Prepayment of Obligations.** The terms of loans held by CLOs may be subject to early redemption features, refinancing options, prepayment options or similar provisions which, in each case, could result in the borrower repaying the principal on an obligation indirectly held by the applicable Client earlier than expected, either with no or a nominal prepayment premium. This may happen when there is a decline in interest rates or credit spreads, or when the borrower's improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt. Assuming an improvement in the credit market conditions, early repayments of such debt could increase. There is no assurance that a CLO will be able to reinvest proceeds received from prepayments in assets that satisfy its investment objective, and any delay in reinvesting such proceeds may materially affect the performance of the applicable Client. Conversely, if the prepayment does not occur within the expected time frame, the term of the applicable Client may be longer than expected or the applicable Client may make distributions in kind.

**Warehouse Financing.** Relatively short-term credit facilities may be used to finance the acquisition of securities for any new CLO until a sufficient quantity of loans are accumulated, at which time the assets are refinanced through a securitization, such as a CLO issuance, or other long-term financing. As a result, there is the risk that a CLO will not be able to acquire, during the period that the short-term facilities are available, a sufficient amount of eligible loans to create a new CLO that will achieve its targeted return. There is also the risk that a CLO will not be able to obtain such short-term credit facilities or may not be able to renew any short-term credit facilities after they expire should it be necessary to obtain extensions for such short-term credit facilities to allow more time to seek and acquire the necessary eligible instruments for a long-term financing. Inability to renew or extend these short-term credit facilities may require a CLO to seek more costly financing for these assets or to lose the ability to utilize them in connection with the creation of a CLO issuance. In addition, conditions in the capital markets may make the creation of a CLO issuance less attractive when a sufficient pool of collateral is available. If such conditions were to exist and a CLO could not complete a CLO issuance prior to the expiration of such financing, the CLO may have to liquidate the investments that it had accumulated, potentially resulting in losses to the CLO.

**Unsecured Debt.** Most of the fixed-income securities held by Clients are expected to be unsecured, whereas all or a significant portion of the issuer's senior indebtedness may be secured. In such situations, the ability of the Clients to influence a portfolio company's affairs, especially during periods of financial distress or following an insolvency, is likely to be substantially less than that of senior creditors. Even where the Clients invest in secured debt, such investments may be subject to the risk that the Clients' security interests in the underlying collateral are not properly or fully perfected. Compounding these risks, the collateral securing debt investments will often be subject to casualty or devaluation risks. Moreover, such investments may not be protected by financial covenants or limitations upon additional indebtedness.

**Undervalued Assets.** Clients may invest in undervalued debt investments and other assets as part of their investment strategy. The identification of investment opportunities in undervalued debt investments and other assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial or complete losses.

Clients may incur substantial losses related to assets purchased on the belief that they were undervalued by their sellers, if they were not in fact undervalued at the time of purchase. In addition, Clients may be required to hold such assets for a substantial period of time before realizing their anticipated value, and, there is no assurance that the value of the assets would not decline further during such time. Moreover, during this period, a portion of the Clients' assets would be committed to those assets purchased, thus preventing Clients from investing in other opportunities. In addition, Clients may

finance such purchases with borrowed funds and thus will have to pay interest on such borrowed amounts during the holding period.

**Delayed Draws and Revolvers.** Clients may from time to time incur contingent liabilities in connection with an investment. For example, Clients may participate in one or more investments that are structured as “delayed draws” or “revolvers”. If the borrower subsequently draws down on the delayed draw facility, Clients would be obligated to fund the amounts due. In such circumstances, Clients may be required to reserve undrawn capital commitments for future funding obligations and may be required to fund such obligations after the termination of the relevant commitment period. However, there can be no assurance that an issuer will ultimately draw down on any such obligation, in which case Clients may never fund the investment (in full or in part), which may result in Clients not fully deploying their committed capital. In addition, it is possible that a delayed draw or revolver investment would be bifurcated by HPS into separate investments, with certain investors (which may or may not include Clients) participating in the initial drawdowns and other investors (which may or may not include Clients) participating in the later drawdowns. In this situation, it is possible that only those investors that participate in such investment at the initial closing will benefit from any upfront fees or other original issue discount from such investment. Clients may also incur numerous other types of contingent liabilities. There can be no assurance that Clients will adequately reserve for its contingent liabilities and that such liabilities will not have an adverse effect on Clients.

**Follow-on Investments.** Following its initial investment in a portfolio company, Clients may have the opportunity to make an additional investment in such portfolio company. While it is expected that the applicable Clients will participate in any follow-on investments on a pro rata basis in accordance with their initial investments in such portfolio company, there may be circumstances where this is not the case. For example, there is no assurance that the applicable Clients will have sufficient available capital to make such a follow-on investment even where a Client does make such follow-on investment. Conversely a Client may have an opportunity to participate in a follow-on investment that other Clients do not make. If a Client does not participate in a follow-on investment, said Client’s investment may be diluted vis-à-vis the participating Clients’ investment and the returns of the non-participating Client with respect to such investment may further diverge from those of the participating Clients. Further, there could be conflicts of interest between the non-participating Clients and the participating Clients, for example, if the follow-on investment is in a different part of the capital structure than the original investment.

**Purchases of Secondary Debt.** Clients may invest in secondary debt. Certain Clients are unlikely to be able to negotiate the terms of secondary debt as part of their acquisition and, as a result, these investments may not include some of the covenants and protections generally sought when Clients make primary investments. For example, debt investments offered in the debt markets in recent years (so-called “covenant lite” deals) often imposed less stringent covenants on the issuers of such debt investments than the covenants included in the terms of debt investments offered in previous periods. Many “covenant lite” debt investments issued during that time period may not obligate portfolio companies to observe and maintain financial maintenance covenants, such as covenants requiring issuers to comply with a maximum leverage ratio, a minimum interest or fixed charge coverage ratio or maximum capital expenditures. Even if such covenants and protections are included in the investments held by Clients, the terms of the investments may provide portfolio companies substantial flexibility in determining compliance with such covenants.

**Acquisitions of Portfolios of Debt Instruments.** Clients may invest in portfolios of debt instruments. Clients are unlikely to be able to evaluate the credit or other risks associated with each of the underlying issuers or negotiate the terms of underlying securities as part of their acquisition but instead must evaluate and negotiate with respect to the entire portfolio of debt instruments or, in the case where

Clients invest in contractual obligations to purchase portfolios of debt instruments subsequently originated by a third party, with respect to the origination and credit selection processes of such third party rather than based on characteristics of a static portfolio of debt instruments. As a result, one or more of the underlying investments in a portfolio may not include some of the characteristics, covenants and/or protections generally sought when Clients acquire or make individual investments. Furthermore, while some amount of defaults are expected to occur in portfolios, defaults in or declines in the value of investments in excess of these expected amounts may have a negative impact on the value of the portfolio and may reduce the return that Clients receive in certain circumstances.

**Asset Backed Securities.** Certain Clients may invest in asset backed securities (“ABS”). Returns from ABS will depend primarily on the cash flow from or sale proceeds of the pool of assets serving as collateral for the ABS and, therefore, are subject to all the risks inherent to an investment in such pool of assets. In addition, many ABS have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss as a result of delinquencies or losses on the underlying assets. In certain circumstances, payments of interest may be reduced or eliminated for one or more payment dates and the average life may lengthen. Subordinate ABS generally do not have the right to call a default or vote on remedies following a default unless more senior securities have been paid in full.

**Below Investment Grade Debt Obligations.** Below investment grade debt obligations have greater credit and liquidity risk than investment grade obligations as the lower rating of such obligations reflects a greater possibility that adverse changes in the financial condition of an obligor or in general economic conditions, or both, may impair the obligor’s ability to make payments in respect of such debt. In addition, obligors of below investment grade debt obligations may be highly leveraged and may not have available to them more traditional methods of financing. During an economic downturn, a sustained period of rising interest, or a period of fluctuating exchange rates (in respect of those obligors with operations located in non-U.S. countries), such obligors may be more likely to experience financial stress and may be unable to meet their debt obligations due to the obligors’ inability to achieve sufficient financial results or the unavailability of financing or under certain market conditions may not be able to refinance their debt obligations which may increase their risk of default.

**Non-Performing Loans (“NPLs”).** It is expected that certain Clients will seek to acquire portfolios of loans that are non-performing and possibly in default. Furthermore, the obligor and/or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments with respect to these loans. Further, while most of these NPLs will be secured, some NPLs will not be secured. While investments in NPLs offer the opportunity for significant gains if all or a part of the principal on the loans is recovered, these investments involve a high degree of financial risk and can result in substantial or complete losses to Clients.

Although HPS will attempt to manage these risks, there can be no assurance that Clients’ investments in NPLs will prove profitable or that Clients will not incur significant losses. There are varying sources of statistical default and recovery rate data for loans and other debt securities and numerous methods for measuring default and recovery rates. However, historical performance of financial assets is not necessarily indicative of their future performance.

**Real Asset Investments.** In addition to the other risks described in this Item 8, real asset and real asset-related investments in whose debt a Client may invest are subject to various additional risks, including changes in regional, national and international economic conditions, adverse local market conditions, changes in the financial condition of tenants, credit and other risks of buyers and sellers of properties, changes in the availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses. Additionally, such portfolio companies may be subject to additional legal

complications, including zoning laws and other governmental rules and fiscal policies. Further, such portfolio companies may be adversely affected by changes in the relative popularity of property types and locations of property held, risks due to dependence on cash flow, and operating problems arising out of the presence of certain construction materials.

**Ongoing Changes and Developments in the Energy Industry.** In the past, the power sector, and particularly the utility industry, was generally characterized by institutional stability and predictability of financial performance. However, deregulation, privatization, technological change and market volatility have created a less stable sector with substantially greater variability of performance. Such factors may continue to influence the energy industry, and therefore the portfolio companies, in ways that may not be foreseeable by HPS when making an investment in a portfolio company, and which may negatively affect the Client's ability to earn a return on its investments.

In many regions, including the United States, the electric utility industry, and the power industry generally, is experiencing increasing competitive pressures, primarily in wholesale markets, as a result of consumer demands, technological advances, greater availability of natural gas, and other factors. To the extent that competitive pressures increase and the pricing and sale of electricity assume more characteristics of a commodity business, the economics of independent power generation projects in whose debt the Client may invest may be affected. In addition, as competition increases, independent power producers may find it increasingly difficult to negotiate long-term power sales agreements with creditworthy purchasers, which may affect the profitability and financial stability of the Client's portfolio companies.

Further, certain investments may be subject to changing policy-driven requirements in addition to general changes. For example, a traditional utility with a franchised service territory may be required to comply with a new renewable energy standard, or implement new energy efficiency measures. Compliance with these new requirements may result in higher costs to the utility. Also, other non-utility energy investments may be subject to state or federal regulation with respect to the provision of demand response or new energy efficiency services.

**Sensitivity to Commodity and Natural Resource Prices and Other Economic Factors.** Energy-related companies in which certain Clients may invest can be particularly sensitive to fluctuations in market price, as well as fluctuations in supply and demand of electricity, oil, natural gas, coal and other commodities (which have been, and are likely to continue to be, volatile). Also, the estimates HPS will use to assess the attractiveness of investments (including the capital structure and valuation of such investments) will be based on financial estimates or projections of such market conditions, commodity prices, natural resource reserves and supply and demand dynamics, which estimates are also subject to wide variances. Moreover, declines in demand for power, including reduced consumption of electricity, gas, and other energy sources (for example, as a result of an economic slowdown) could negatively affect portfolio companies in which the Client invests by reducing their revenues, net income and assets. Consequently, there can be no assurance that the volatility and unpredictability of commodity and natural resource prices and supply and demand dynamics will not negatively affect the portfolio companies' performances (and their ability to service their outstanding debt).

**Real Estate Market.** Certain Clients may directly or indirectly make real estate-related investments. If Clients make real estate-related investments, such investments will be subject to the risks inherent in the ownership of real estate assets. These risks typically include fluctuations in the real estate markets, slowdown in demand for the purchase or rental of properties, changes in the relative popularity of property types and locations, the oversupply of a certain type of property, changes in regional, national and international economic conditions, adverse local market conditions, the financial conditions of tenants, buyers and sellers of properties, changes in building, environmental, zoning and other laws and other governmental rules and fiscal policies, changes in real property tax rates or the assessed values of the investments, changes in interest rates and the availability or terms of debt financing, changes in

operating costs, risks due to dependence on cash flow, environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves had been established, uninsured casualties, risks due to dependence on cash flow and risks and operating problems arising out of the presence of certain construction materials, unavailability of or increased cost of certain types of insurance coverage, such as terrorism insurance, fluctuations in energy prices, acts of God, natural disasters and uninsurable losses, acts of war (declared and undeclared), terrorist acts, strikes and other factors which are not within the control of HPS.

Clients may also make real estate credit-related investments, including investments in mortgage backed securities and investments in individual mortgages. Investments in mortgage backed securities are subject to the risks applicable to the risks described above in Asset Backed Securities as well as the risks applicable to real estate investments generally. With respect to particular real estate credit investments, real estate loans that are in default may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of such loans. Even if a restructuring were successful, a risk exists that upon maturity of such real estate loan, replacement “takeout” financing will not be available. It is possible that HPS may find it necessary or desirable to foreclose on collateral securing one or more real estate loans purchased by a Client. The foreclosure process can be lengthy, uncertain and expensive.

**Nature of Infrastructure Investments.** Certain Clients may directly or indirectly make infrastructure-related investments. Investment in infrastructure assets involves many significant relatively unique and acute risks. Project revenues can be affected by a number of factors including economic conditions, political events, competition, regulation and the financial position and business strategy of customers. Unanticipated changes in the availability or price of inputs necessary for the operation of infrastructure assets may adversely affect the overall profitability of the investment. Events outside the control of a portfolio company (which for all purposes of this section includes assets, projects and/or businesses in which Clients invest), such as political action, governmental regulation, demographic changes, economic growth, increasing fuel prices, government macroeconomic policies, toll rates, social stability, competition from untolled or other forms of transportation, natural disasters, changes in weather, changes in demand for products or services, bankruptcy or financial difficulty of a major customer and acts of war or terrorism, could significantly reduce the revenues generated or significantly increase the expense of constructing, operating, maintaining or restoring infrastructure facilities. In turn, this may impair a portfolio company's ability to repay its debt, make distributions to Clients or even result in termination of an applicable concession or other agreement. As a general matter, the operation and maintenance of infrastructure assets or businesses involve various risks, many of which may not be under the control of the owner/operator, including labor issues, failure of technology to perform as anticipated, structural failures and accidents and the need to comply with the directives of government authorities. Although portfolio companies may maintain insurance to protect against certain risks, where available on reasonable commercial terms (such as business interruption), such insurance is subject to customary deductibles and coverage limits and may not be sufficient to recoup all of a portfolio company's losses. Furthermore, once infrastructure assets of investments become operational, they may face competition from other infrastructure assets in the vicinity of the assets they operate, the presence of which depends in part on governmental plans and policies.

**Minority Investments and Joint Ventures.** Certain Clients may make equity investments, including minority equity investments in entities in which Clients do not control the business or affairs of such entities. In addition, Clients may co-invest with other parties through partnerships, joint ventures or other entities and HPS and the relevant general partners may share management fees and/or carried interest with such parties. Although in some cases Clients, HPS or the relevant general partners will have control over, or significant influence on, the decision making of joint ventures, certain decisions may require approval of all the directors or shareholders of the joint ventures. The cooperation among the joint venture partners of such companies on existing and future business decisions will be an important factor

for the sound operation and financial success of these businesses. There is the possibility that the entity in which the Clients' investment is made or such co-investor may have economic or business interests or goals that are inconsistent with those of the Clients, and the Clients' may not be in a position to limit or otherwise protect the value of the Clients investment in the entity. Disputes among joint venture partners over joint venture obligations or otherwise could have an adverse effect on the financial conditions or results of operations of these businesses. In addition, Clients may in certain circumstances be liable for actions of their co-investors.

**Equity Investments.** Certain Clients may directly or indirectly invest in equity securities, including common stocks of U.S. and non-U.S. issuers. Clients may also directly or indirectly purchase equity-related securities and instruments, such as convertible securities, warrants and stock options. The value of equity securities varies in response to many factors. Factors specific to an issuer, such as certain decisions by management, lower demand for its products or services, or even loss of a key executive, could result in a decrease in the value of the issuer's securities. Factors specific to the industry in which the issuer participates, such as increased competition or costs of production or consumer or investor perception, can have a similar effect. The value of an issuer's stock can also be adversely affected by changes in financial markets generally, such as an increase in interest rates or a decrease in consumer confidence, that are unrelated to the issuer itself or its industry. Stock which a Client has sold short may be favorably impacted (to the detriment to the performance of such Client) by the same factors (e.g., decreased competition or costs or a decrease in interest rates). In addition, certain options and other equity-related instruments may be subject to additional risks, including liquidity risk, counterparty credit risk, legal risk and operations risk, and may involve significant economic leverage and, in some cases, be subject to significant risks of loss. These factors and others can cause significant fluctuations in the prices of the securities in which a Client invests and can result in significant losses to the Client.

**Preferred Stock, Convertible Securities and Warrants.** Certain Clients may invest in preferred stock, convertible securities and warrants. The value of preferred stocks, convertible securities and warrants will vary with the movements in the equity market and the performance of the underlying common stock, in particular. Their value is also affected by adverse issuer or market information. Thus, for example, as the value of the underlying common stock of an issuer fluctuates, the value of the preferred stock of such issuer would also be expected to fluctuate. With respect to warrants, their value may decrease or may be zero and thus not be exercised if the market price of the underlying securities remains lower than the specified price at which holders of warrants are entitled to buy such securities, resulting in a loss to the Client of the purchase price of the warrant (or the embedded warrant price in the case of securities issued with warrants attached).

With respect to convertible securities, as with all fixed income securities, the market value of such securities tends to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus, may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stock in an issuer's capital structure and consequently entail less risk than the issuer's common stock. In evaluating a convertible security, HPS will give primary emphasis to the attractiveness of the underlying common stock. If a convertible security held by a Client is called for redemption, the Client will be required to permit the issuer to redeem the security, convert it into the underlying stock or sell it to a third party. Any of these actions could have an adverse effect on the Client's ability to achieve its investment objectives.

**Growth Equity Investments.** Certain Clients may invest in growth equity investments. While growth equity investments offer the opportunity for significant capital gains, such investments may involve a higher degree of business and financial risk that can result in substantial or total loss. Growth

equity portfolio companies may operate at a loss or with substantial variations in operating results from period to period, and many will need substantial additional capital to support additional research and development activities or expansion, to achieve or maintain a competitive position, and/or to expand or develop management resources. Growth equity portfolio companies may face intense competition, including from companies with greater financial resources, better brand recognition, more extensive development, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*Risks Related to the General Investment Activity of an HPS Fund or Third Party Fund:*

**Use of Leverage.** Certain Clients expect to incur indebtedness for borrowed money that may include one or more credit facilities, which may be secured or unsecured, may be cross-collateralized and may include one or more credit facilities secured by a pledge of the applicable general partner's right to draw down capital commitments and/or the assets of the applicable Clients ("**Credit Facilities**"). In connection with any Credit Facility, investors may be required to confirm the terms of their capital commitments to the lender(s) in respect thereof and provide such information and execute such documents as such lender(s) or the general partners may reasonably require. The presence of a Credit Facility may further impede the ability of an investor to transfer its interest in a Client.

There can be no assurance that a Client will be able to obtain the desired amounts of indebtedness or that indebtedness will be accessible by Clients at any particular time. If indebtedness is available to Clients, there can be no assurance that such indebtedness will be on terms favorable to such Clients and/or terms comparable to terms obtained by competitors, including with respect to interest rates. Furthermore, Clients may seek to obtain indebtedness on an investment-by-investment basis. It is expected that one or more Client will directly or indirectly incur indebtedness for borrowed money collateralized by such Clients' assets and/or capital commitments. The amount of leverage a particular Client can incur is subject to agreement with the relevant investors or their designees. The failure by a Client to obtain indebtedness on favorable terms or at all could adversely affect the returns of such Client and impair its ability to achieve its investment objectives.

The greater the total leverage of a Client relative to its aggregate capital commitments, the greater the risk of loss and possibility of gain due to market fluctuations in the values of its investments. The extent to which a Client uses leverage may have other significant consequences to investors, which are discussed in greater detail in the relevant Client Governing Documents. There can also be no assurance that a Client will have sufficient cash flow or be able to liquidate sufficient assets to meet its debt service obligations. As a result, a Client's exposure to losses, including a potential loss of principal, as a result of which investors could potentially lose all or a portion of their investment in an Client, may be increased due to the use of leverage and the illiquidity of the investments generally. Similar risks and consequences apply with respect to indebtedness related to a particular asset or portfolio of assets as also discussed elsewhere in response to this Item 8.

**Broad Investment Mandate.** Certain Clients may have an investment strategy that is opportunistic in nature and covers a broad range of asset classes, geographic regions and industries. An investor in such a Client must rely upon the ability of HPS and the relevant investment team to identify, structure, and implement investments consistent with the applicable Client's overall investment objectives and policies at such times as they determine. Except as set forth in relevant Governing Documents, there are no material limitations on the instruments, markets or countries in which the applicable Client may invest or the specific investment strategies that may be employed on behalf of the applicable Client. Subject to the foregoing, the Client may make investments throughout the capital structure such as senior secured debt, bank debt, unsecured debt, subordinated debt, mezzanine securities, convertible bonds, preferred equity and common stock. It is expected that, in light of the Client's investment objective, the Client may often make equity, credit and/or debt investments that may not involve control or influence

over the underlying entity in which the Client invests. Additionally, the Client will be permitted to invest (and may actually invest) in any number of companies operating in a wide range of industries, geographies or activities, and as a result, the Client will be exposed to a wide range of risks.

**Lack of Diversification.** Clients may, in certain circumstances, make a limited number of investments. Although Clients are generally subject to certain concentration and other restrictions, these limits may be waived by the relevant investors or their designees as provided in the relevant Governing Documents and under applicable law. A consequence of the fact that the Clients may make a limited number of investments is that the aggregate returns realized by the investors may be substantially adversely affected by the unfavorable performance of a small number of these investments. Furthermore, certain Clients do not have fixed guidelines for diversification by industry, and investments may be concentrated in only a few industries.

**Investments in Restructurings and Other Investments that may Become Distressed.** Clients may make investments in restructurings and other investments that involve portfolio companies that are experiencing or are expected to experience severe financial difficulties due to factors outside the control of HPS and may never be overcome. If an issuer's financial condition deteriorates, accurate financial and business information may be limited or unavailable. Such investments could, in certain circumstances, subject Clients to certain additional potential liabilities, which may exceed the value of the Clients' original investments therein. There is no assurance that there will be a successful restructuring, reorganization or similar action of the company or investment which becomes stressed. In addition, lower-rated investments may be thinly traded and there may be no established secondary or public market. The level of analytical sophistication, both financial and legal, necessary for successful investments in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Clients will correctly evaluate the value of the assets collateralizing the Clients' investment or the prospects for a successful reorganization or similar action. In any restructuring, reorganization or liquidation proceeding relating to a company in which the Clients invest, the Clients may lose their entire investment, may be required to accept cash or securities with a value less than such Clients' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Clients' investments may not compensate the investors adequately for the risks assumed. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In addition, under circumstances involving a portfolio company's insolvency and proceedings related thereto, payments to the Clients and distributions by the Clients to the investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Investments in restructurings involving non-U.S. portfolio companies may be subject to various laws enacted in the countries of their issuance for the protection of creditors. These considerations will differ depending on the country in which each portfolio company is located or domiciled.

Troubled company and other asset-based investments require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by HPS. To the extent that HPS becomes involved in such proceedings, the Clients may have to participate more actively in the affairs of the company than that assumed generally by an investor. In addition, involvement by HPS in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Clients' ability to liquidate their position in the issuer.

**Investments in Special Situations.** Certain Clients' investments may involve investments in 'event-driven' special situations such as recapitalizations, spinoffs, corporate and financial restructurings, litigation or other liability impairments, turnarounds, management changes, consolidating industries and other catalyst-oriented situations. HPS believes these types of investments often have limited downside



risk relative to their current valuations. HPS could, however, be incorrect in its assessment of the downside risk associated with an investment, thus resulting in significant losses to the Clients. Investments in such securities are often difficult to analyze, have limited trading histories and have limited in-depth research coverage. Although the Clients intend to utilize appropriate risk management strategies, such strategies cannot fully insulate the Clients from the risks inherent in their planned activities. Moreover, in certain situations the Clients may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant circumstances.

**Assignments and Participations.** Clients may acquire investments by way of assignment or by way of participation. Holders of indirect participation interests are subject to additional risks not applicable to a holder of a direct assignment interest in a debt investment. In purchasing a participation, Clients generally would have no right to enforce compliance by the obligor with the terms of the investment or note purchase agreement or other instrument evidencing such obligation, nor any rights of set-off against the obligor, and Clients may not directly benefit from the collateral supporting the obligation in which it has purchased the participation. As a result, Clients would assume the credit risk of both the obligor and the selling institution, which would remain the legal owner of record of the applicable investment. In the event of the insolvency of the selling institution, Clients may be treated as a general creditor of the selling institution in respect of the participation, may not benefit from any set-off exercised by the selling institution against the obligor and may be subject to any set-off exercised by the obligor against the selling institution. Assignments and participations are typically sold strictly without recourse to the selling institution, and the selling institution will generally make no representations or warranties about the underlying note, the portfolio companies, the terms of the investment or any collateral securing the investment. Certain investments have restrictions on assignments and participations which may negatively impact Clients' ability to exit from all or part of its investment.

**Illiquidity of the HPS Funds' or Third Party Funds' Assets; Distributions In Kind; Use of Proceeds.** Clients will generally invest in private illiquid securities, which are typically subject to significant restrictions on transfer and are difficult to sell in a secondary market. In some cases, Clients may be prohibited from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate due to the lack of an established market for such securities or other factors. Factors such as overall economic conditions and the competitive environment may shorten or lengthen Clients' intended holding period for any investment or group of investments. As a result, there is a significant risk that Clients may be unable to realize their investment objectives by sale or other disposition at attractive prices or will otherwise be unable to complete any exit strategy. Even if investments are successful, they are unlikely to produce a realized return to investors for a period of years. Furthermore, a portion of interest on investments may be paid in-kind rather than in cash to Clients and, in certain circumstances, Clients may exit investments through distributions in kind to the investors, after which the investors will bear the risk of holding the securities and must make their own disposition decisions. While Clients generally intend to make all distributions of net proceeds, including current proceeds, in accordance with the applicable Governing Documents, the amount and timing of distributions from a Client to the investors will be at the discretion of the applicable general partner or investment manager who may also direct that amounts available for distribution be retained in a Client: (i) to be used to satisfy, or establish reserves for, such Client's current or anticipated obligations or (ii) for reinvestment, as applicable and as described in the relevant Client's Governing Documents. Accordingly, there can be no assurance as to the timing and amount of distributions from the Clients.

**Potential Early Redemption of Some Investments.** The terms of investments in which Clients invest may be subject to early redemption features, refinancing options, prepayment options or similar provisions which, in each case, could result in the issuer repaying the principal on an obligation held by Clients earlier than expected, either with or without a prepayment premium. This may happen when there

is a decline in interest rates, or when the issuer's improved credit or operating or financial performance allows the refinancing of certain classes of securities with lower cost securities. Assuming an improvement in the credit market conditions, early repayments of the obligations held by Clients could increase. There is no assurance that Clients will be able to reinvest proceeds received from prepayments in assets that satisfy its investment objectives, and any delay in reinvesting such proceeds may materially affect the performance of Clients. Conversely, if the prepayment does not occur within the Clients' term or if the investment does not otherwise become liquid, the term of the Clients may be longer than expected or the Clients may make distributions in kind.

**Licensing Requirements.** Certain federal and local banking and regulatory bodies or agencies in or outside the United States may require Clients, the relevant general partners, HPS or its affiliates, and/or certain employees of HPS to obtain licenses or authorizations to engage in many types of investment activities including the types of investment activities contemplated by Clients. It may take a significant amount of time and expense to obtain such licenses or authorizations and Clients may be required to bear the cost of obtaining such licenses and authorizations. There can be no assurance that any such licenses or authorizations would be granted or, if granted, whether any such licenses or authorizations would impose restrictions on Clients. Such licenses may require the disclosure of confidential information about Clients, investors or their respective affiliates, including financial information and/or information regarding officers and directors of certain significant investors. Clients may not be willing or able to comply with these requirements. Alternatively, HPS may be compelled to structure certain potential investments in a manner that would not require such licenses and authorizations, although such transactions may be inefficient or otherwise disadvantageous for Clients and/or any relevant portfolio company. The inability of Clients, the relevant general partners or HPS or its affiliates to obtain necessary licenses or authorizations, the structuring of an investment in an inefficient or otherwise disadvantageous manner, or changes in licensing regulations, could adversely affect the Clients' ability to implement their investment program and achieve their intended results.

**Investments in Certain Countries.** Subject to the investment limitations set forth in the relevant Governing Documents, Clients are expected to make investments in a number of different countries, some of which may prove unstable. Depending on the country in which a portfolio company is located, such investments may involve a number of risks, including the risk of adverse political developments such as nationalization, confiscation without fair compensation or war, and the risk of regulations which might prevent the implementation of cost cutting or other operational improvements.

Because Clients are expected to make investments in a number of different countries, any fluctuation in exchange rates will affect the value of investments. Clients may employ hedging techniques designed to reduce the risk of adverse movements in currency exchange rates.

Investments in corporations or assets in certain countries may require significant government approvals under corporate, securities, exchange control, foreign investment and other similar laws. In addition, such investments may give rise to taxes in local jurisdictions, for which an investor may not be entitled to any corresponding credit or tax benefit to an investor. Such investments may also give rise to tax filing obligations for investors in these jurisdictions, although the relevant general partners or HPS or its affiliates may structure such investments so as to prevent such obligations from being imposed on investors. Also, some governments from time to time may impose restrictions intended to prevent capital flight, which may, for example, involve punitive taxation (including high withholding taxes) on certain securities or asset transfers or the imposition of exchange controls making it difficult or impossible to exchange or repatriate the local currency. In addition, the laws of various countries governing business organizations, bankruptcy and insolvency may make legal action difficult and provide little, if any, legal protection for investors.

The availability of information within developing countries and emerging market jurisdictions, including information concerning their economies and the securities of companies in such countries, and the amount of government supervision and regulation of private companies in developing countries,

generally is more limited than is the case in more developed countries. The accounting, auditing and financial reporting standards and practices of certain countries may not be equivalent to those employed in more developed countries and may differ in fundamental respects. Accordingly, Clients' ability to conduct due diligence in connection with their investment and to monitor the investments may be adversely affected by these factors. Clients may not be in a position to take legal or management control of their investments in certain countries. They may have limited legal recourse in the event of a dispute, and remedies might have to be pursued in the courts of the country in question where it may be difficult to obtain and enforce a judgment.

**Use of Alternative Investment Vehicles.** In certain situations as described in the relevant Governing Documents, the applicable general partner or investment manager may create one or more Alternative Investment Vehicles ("AIVs") through which investors may be required to invest instead of through Clients. The terms of any AIV may vary from the terms of the Clients based in part on the structure of the relevant transactions, legal requirements and tax, regulatory or other considerations, including the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as reasonably determined by the applicable general partner or investment manager. The economics of an AIV will generally be aggregated with those of the applicable Client for purposes of calculating the carried interest and clawback amount unless the applicable general partner or investment manager determines otherwise because such aggregation would be reasonably likely to increase the risk of any adverse tax or other consequences. The use of AIVs is permitted, but not required, and there can be no assurance that AIVs will be utilized. Further, if AIVs are utilized in connection with particular investments, the tax treatment of those AIVs, and the tax consequences to investors of investing in those AIVs, may or may not vary from the tax treatment of Clients and investors described herein.

**Subsidiary Investment Vehicles.** Certain Clients expect to make one or more investments through private limited companies and other entities incorporated in certain foreign jurisdictions. Certain of the subsidiary entities through which Clients may invest may be structured so that Clients hold profit participating notes or other debt interests instead of equity interests. This structure may involve certain risks, including the potential subordination of the interests held by Clients, limited protection in the event of insolvency and limited recourse beyond the assets of the subsidiary entity.

**Hedging Policies and Risks.** Clients may employ hedging or other risk management techniques designed to reduce the risk of adverse interest rate or currency movements, credit market and certain other risks. There can be no assurance that any hedging transactions will be successful or comprehensive. For example, Clients may not be able to or may elect not to hedge interest payments in foreign currencies. The variable degree of correlation between price movements of hedging instruments and price movements in the position being hedged creates the possibility that losses on the hedge may be greater, or gains smaller, than losses or gains, as the case may be, in the value of the underlying position. While Clients may benefit from the use of hedging mechanisms, unanticipated changes in interest rates, currency exchange rates, securities prices, or credit market movements may result in a poorer overall performance for Clients than if they had not entered into such hedging transactions. Additionally, hedging transactions will add to the cost of an investment, may require ongoing cash payments to counterparties, may subject Clients to the risk that the counterparty defaults on its obligations, and may produce different economic or tax consequences to the investors than would apply if Clients had not entered into such hedging transactions.

**Certain Guarantees.** Certain Clients may invest in debt that is guaranteed by a subsidiary of the issuer. In some circumstances, guarantees of secured debt issued by subsidiaries of a portfolio company and held by Clients may be subject to fraudulent conveyance or similar avoidance claims made by other creditors of such subsidiaries under applicable insolvency laws. As a result, such creditors may take priority over the claims of Clients under such guarantees. Under federal or state fraudulent transfer law, a

court may void or otherwise decline to enforce such debt and Clients would no longer have any claim against such portfolio company or the applicable guarantor. In addition, the court might direct Clients to disgorge any amounts already received from the portfolio company or a guarantor. In some cases, significant subsidiaries of portfolio companies may not guarantee the obligations of the portfolio company; in other cases, a portfolio company may have the ability to release subsidiaries as guarantors of the portfolio company's obligations. The repayment of such investments may depend on cash flow from subsidiaries of a portfolio company that are not themselves guarantors of the portfolio company's obligations.

**Non-Recourse Obligations.** Clients may invest in non-recourse obligations of issuers. Such obligations are payable solely from proceeds collected in respect of collateral pledged by an issuer to secure such obligations. None of the owners, officers, directors or incorporators of the issuers, trustees, any of their respective affiliates or any other person or entity will be obligated to make payments on the obligations. Consequently, Clients, as holders of the obligations, must rely solely on distributions of proceeds of collateral debt obligations and other collateral pledged to secure obligations for payments due in respect of principal thereof and interest thereon. If distributions of such proceeds are insufficient to make payments on the obligations, no other assets will be available for such payments and following liquidation of all the collateral, the obligations of the issuers to make such payments will be extinguished.

**Effect of Changes in Interest Rates on Investments.** Many securities, especially fixed rate securities, decline in value when long-term interest rates increase. Declines in market value, if not offset by any corresponding gains on hedging instruments, may ultimately reduce earnings or result in losses to Clients to the extent it makes fixed rate investments, which may negatively affect cash available for distribution to investors. In addition, in a low interest rate environment, issuers may be less likely to prepay their liabilities and obligations may therefore remain outstanding for a longer period of time.

*Risks Related to the Portfolio Companies of an HPS Fund or Third Party Fund:*

**Portfolio Companies Generally.** A fundamental risk associated with Clients' investment strategy is that the companies in which Clients invest will be unable to make regular payments (e.g., dividend, principal and interest payments) when due, or at all, or otherwise fail to perform. Portfolio companies could deteriorate as a result of, among other factors, an adverse development in their business, poor performance by their management teams, a change in the competitive environment, an economic downturn or legal, tax or regulatory changes. Portfolio companies that HPS expects to remain stable may in fact operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress.

**Business and Credit Risks.** Investments made by Clients will generally involve a significant degree of financial and/or business risk. Certain Clients intend to invest a significant portion of their capital in fixed-income securities—including subordinated notes, preferred securities, convertible securities, participations and other fixed-income securities and obligations. These securities may pay fixed, variable or floating rates of interest, and are expected to include zero coupon obligations or interest that is paid-in-kind (which tend to increase business and credit risks if an investment becomes impaired because there would be little to no realized proceeds through cash interest payments prior to such impairment). Fixed-income securities are subject to the risk of the issuer's inability to make payments on its obligations (*i.e.*, credit risk) and are also subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

Certain Clients' investments may be in businesses with little or no operating history. Business risks may be more significant in smaller portfolio companies or those that are embarking on a build-up or operating turnaround strategy.

**Provision of Managerial Assistance; Control Person Liability.** Certain Clients may obtain rights to participate in the governance of certain Clients' portfolio companies. In such instances, Clients typically will designate directors to serve on the boards of directors of portfolio companies. The designation of representatives and other measures contemplated could expose the assets of Clients to claims by a portfolio company, its security holders and its creditors, including claims that a Client is a controlling person and thus is liable for securities laws violations and other liabilities of a portfolio company. The exercise of control over a company may impose additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations (including securities laws) or other types of liability in which the limited liability generally characteristic of business ownership may be ignored. If these liabilities were to arise, Clients might suffer a significant loss. These measures also could result in certain liabilities in the event of the bankruptcy or reorganization of a portfolio company, could result in claims against Clients if the designated directors violate their fiduciary or other duties to a portfolio company or fail to exercise appropriate levels of care under applicable corporate or securities laws, environmental laws or other legal principles, and could expose a Client to claims that it has interfered in management to the detriment of a portfolio company. While the relevant general partners and HPS or its affiliates intend to operate Clients in a way that will minimize the exposure to these risks, the possibility of successful claims cannot be precluded.

**Portfolio Companies May be Highly Leveraged.** Portfolio companies may be highly leveraged and there is no restriction on the amount of debt a portfolio company can incur. Substantial indebtedness may add additional risk with respect to a portfolio company, and could: (i) limit its ability to borrow money for its working capital, capital expenditures, debt service requirements, strategic initiatives or other purposes; (ii) require it to dedicate a substantial portion of its cash flow from operations to the repayment of its indebtedness, thereby reducing funds available to it for other purposes; (iii) make it more highly leveraged than some of its competitors, which may place it at a competitive disadvantage; and/or (iv) subject it to restrictive financial and operating covenants, which may preclude it from favorable business activities or the financing of future operations or other capital needs. In some cases, proceeds of debt incurred by a portfolio company could be paid as a dividend to stockholders rather than retained by the portfolio company for its working capital. Leveraged companies are often more sensitive to declines in revenues, increases in expenses, and adverse business, political, or financial developments or economic factors such as a significant rise in interest rates, a severe downturn in the economy or deterioration in the condition of such companies or their industries. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

If a portfolio company is unable to generate sufficient cash flow to meet principal and interest payments to its lenders, it may be forced to take other actions to satisfy such obligations under its indebtedness. These alternative measures may include reducing or delaying capital expenditures, selling assets, seeking additional capital, or restructuring or refinancing indebtedness. Any of these actions could significantly reduce the value of the Clients' investment in such portfolio company. If such strategies are not successful and do not permit the portfolio company to meet its scheduled debt service obligations, the portfolio company may also be forced into liquidation, dissolution or insolvency, and the value of the Clients' investment in such portfolio company could be eliminated.

**Adverse Effect of Economic Conditions on the HPS Funds and Third Party Funds and the Portfolio Companies.** Clients and the portfolio companies in which Clients invest may be adversely affected by deteriorations in the financial markets and economic conditions throughout the world, some of which may magnify the risks described in the relevant Governing Documents and have other adverse effects. Deteriorating market conditions could result in increasing volatility and illiquidity in the global

credit, debt and equity markets generally. The duration and ultimate effect of adverse market conditions cannot be forecast, nor is it known whether or the degree to which such conditions may remain stable or worsen. Deteriorating market conditions and uncertainty regarding economic markets generally could result in declines in the market values of potential investments or declines in the market values of investments after they are acquired by Clients. Such declines could lead to weakened investment opportunities for Clients, could prevent Clients from successfully meeting their investment objectives or could require Clients to dispose of investments at a loss while such unfavorable market conditions prevail. In addition, the investment opportunities of Clients are, in some cases, dependent in part upon the consummation of leveraged buyout and other private equity sponsored transactions, recapitalizations, refinancing, acquisitions and structured transactions. If fewer of these transactions occur than HPS expects, there may be limited investment opportunities for Clients. Periods of prolonged market stability may also adversely affect the investment opportunity set available to Clients.

**Reliance on Company Management.** HPS and its affiliates generally will seek to monitor the performance of investments in operating companies either through interaction with the board of directors of the applicable company and/or by maintaining an ongoing dialogue with the company's management team. However, Clients generally will not be in a position to control any issuer by investing in its securities and the portfolio company's management will be primarily responsible for the operations of the company on a day-to-day basis. Although it is the intent of Clients to invest in companies with strong management teams, there can be no assurance that the existing management team, or any new one, will be able to operate the company successfully. In addition, Clients are subject to the risk that an issuer in which it invests may make business decisions with which Clients disagree and the management of such portfolio company, as representatives of the common equity holders, may take risks or otherwise act in ways that do not serve the interests of the investors, including Clients. Furthermore, as discussed in Items 5 and 6 above, in exercising its investment discretion, HPS and its affiliates may, in certain circumstances, commit funds of the Clients to other entities that will be given a mandate to make certain investments consistent with Clients' investment objectives and that may earn a performance-based fee on those investments. Once such a commitment is made, such entities will have full control over the investment of such funds, and HPS or one or more of its affiliates will cease to have such control.

**Issuer Fraud.** Of paramount concern with the types of investments contemplated by Clients is the possibility of material misrepresentation or omission on the part of issuers or guarantors. Such inaccuracy or incompleteness may adversely affect the valuation of the investment or the collateral (if any) underlying the obligation or may adversely affect the ability of the Clients or their affiliates to perfect or effectuate a lien on the collateral securing the obligation. Clients or their affiliates will rely upon the accuracy and completeness of representations made by issuers to the extent reasonable, but cannot guarantee such accuracy or completeness.

**Fraudulent Conveyances and Voidable Preferences by Issuers.** Under U.S. legal principles, in a lawsuit brought by an unpaid creditor or representative of creditors of an issuer of securities (including a bankruptcy trustee), if a court were to find that the issuer did not receive fair consideration or "reasonably equivalent value" for incurring the obligation or for granting security, and that after giving effect to such obligation or such security, the issuer (a) was insolvent, (b) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital, or (c) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature, such court could determine to invalidate and avoid, in whole or in part, the obligation underlying an investment of Clients as a constructive fraudulent conveyance. The measure of insolvency for purposes of the foregoing will vary. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts was then greater than all of its property at a fair valuation, or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply to

determine whether the issuer was “insolvent” after giving effect to the incurrence of the obligation in which the Client invested or that, regardless of the method of valuation, a court would not determine that the issuer was “insolvent” upon giving effect to such incurrence.

In the event of the insolvency of an issuer of securities in which the Clients invest, payments made on such obligation could be subject to avoidance as a “preference” if made within a certain period of time (which may be as long as one year) before the issuer becomes a debtor in a bankruptcy case. In general, if payments on the obligation are avoidable, whether as fraudulent conveyances or preferences, such payments can be recaptured from the Client to which such payments were made.

Even if Clients do not engage in conduct that would form the basis for a successful cause of action based upon fraudulent conveyance or preference law, there can be no assurance as to whether any lending institution or other party from which the Clients may acquire such security, or any prior holder of such security, has not engaged in any such conduct (or any other conduct that would subject the obligations under the security to disallowance or subordination under insolvency laws) and, if it did engage in such conduct, as to whether such creditor claims could be asserted in a U.S. court (or in the courts of any other country) against a Client so that such Client’s claim against the issuer would be disallowed or subordinated.

**Bankruptcy.** One or more of the issuers of an investment held by the Clients may become involved in bankruptcy or similar proceedings. There are a number of significant risks inherent in the bankruptcy process. First, many events in a bankruptcy are adversarial and beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a court would not approve actions which may be contrary to the interests of Clients. Reorganizations can be contentious and adversarial. Participants may use the threat of, as well as actual, litigation as a negotiating technique. Second, the duration of a bankruptcy case can only be roughly estimated. The bankruptcy process can involve substantial legal, professional and administrative costs to the company and Clients, it is subject to unpredictable and lengthy delays, and during the process the company’s competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Any of these factors may adversely affect the return on a creditor’s investment. Third, U.S. bankruptcy law permits the classification of “substantially similar” claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is flexible, there is a significant risk that Clients’ influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. Fourth, in the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be substantial. Fifth, a bankruptcy may result in creditors and equity holders losing their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor. Sixth, Clients may purchase creditor claims subsequent to the commencement of a bankruptcy case, and it is possible that such purchase may be disallowed by a court if it determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Further, several judicial decisions in the United States have upheld the right of portfolio companies to sue lenders or bondholders on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated an implied or contractual duty of good faith and fair dealing owed to the portfolio company or issuer or has assumed a degree of control over the portfolio company or issuer resulting in the creation of a fiduciary duty owed to the portfolio company or issuer or its other creditors or shareholders. Because of the nature of certain of the investments, Clients could be subject to allegations of lender liability. Because of the potential of HPS or its affiliates to have investments in

several positions in the same, different or overlapping levels of a portfolio company's capital structure, Clients may be subject to claims from creditors of a portfolio company that the investments should be equitably subordinated to the payment of other obligations of the portfolio company by reason of the conduct of Clients or HPS and its affiliates. In addition, under certain circumstances, a U.S. bankruptcy court could also recharacterize claims held by Clients as equity interests, and thereby subject such claims to the lower priority afforded equity claims in certain restructuring scenarios.

**Bankruptcy Involving Non-U.S. Companies.** Investment in debt issued by financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain, while other developing countries may have no bankruptcy laws enacted, adding further uncertainty to the process for reorganization.

**Creditors' Committee and/or Board Participation.** In connection with some of the investments, Clients may, but are not obligated to, seek representation on official and unofficial creditors' committees and/or boards (or comparable governing bodies) of the portfolio companies. While such representation may enable the relevant general partners or investment managers to enhance the value of the investments, it may also prevent a Client from disposing of the investments in a timely and profitable manner, because serving on a creditors committee increases the possibility that such Client will be deemed an "insider" or a "fiduciary" of the portfolio company. If the relevant general partners or investment managers conclude that their obligations owed to the other parties as a committee or group member conflict with their duties owed to Clients, they may resign from that committee or group, and Clients may not realize the benefits, if any, of participation on the committee or group. If representation on a creditors committee or board causes a Client or the relevant general partner or investment managers to be deemed an affiliate or related party of the portfolio company, the securities of such portfolio company held by such Client may become restricted securities, which are not freely tradable. Participation on a creditors' committee and/or board representation may also subject a Client to additional liability to which it would not otherwise be subject as an ordinary course, third-party investor. Clients will indemnify the relevant general partners or investment managers or any other person designated by the relevant general partners or investment managers for claims arising from such board and/or committee representation, which could adversely affect the return on the investments. Clients will attempt to balance the advantages and disadvantages of such representation when deciding whether and how to exercise its rights with respect to such portfolio companies, but changes in circumstances could produce adverse consequences in particular situations.

#### *Regulatory Risks:*

**Changing Regulatory Environment.** In addition to the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), the regulatory environment for private investment funds may continue to evolve, and changes in regulation could occur during the term of the Client that may adversely affect the Client and its investment results, or some or all of the investors. Clients may be adversely affected as a result of new or revised legislation, or regulations imposed by the SEC, the U.S. Commodity Futures Trading Commission (the "**CFTC**"), the U.S. Internal Revenue Service (the "**IRS**"), the U.S. Federal Communications Commission (the "**FCC**"), the Alternative Investment Fund Managers Directive or other U.S. or non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets, including potentially newly created regulatory bodies. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to intervene, directly and by regulation, in certain markets and may restrict or



prohibit market practices, such as the short-selling of certain stocks. Clients or some or all of their investors also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could be more difficult and expensive, and may affect the manner in which a Client conducts business. Furthermore, new regulations may impair the ability of Clients to obtain the leverage they seek to pursue their investment strategies. New laws or regulations may also subject Clients or some or all of their investors to increased taxes or other costs.

In addition, the tax laws and regulations are changing on an ongoing basis, and such changes may apply with retroactive effect. Moreover, the interpretation and application of tax laws and regulations by certain tax authorities may not be clear, consistent or transparent. Developments in the tax laws of the United States or other jurisdictions could have a material effect on the tax consequences to Clients and their investors. For example, changes in (or differing interpretations with respect to) the tax laws may require a Client to accrue for potential tax liabilities even in situations where the Client does not expect to be ultimately subject to such tax liabilities and may give rise to additional accrual and/or other obligations and may require limited partners to disclose certain additional information (which may be provided to the IRS or other taxing authorities) or may subject such investors to other adverse tax consequences.

**Risk Retention Regulations.** In order to satisfy risk retention requirements established by relevant regulators (the “**Risk Retention Regulations**”), CLO issuers (such as HPS), their affiliates and/or other parties may hold investments in the debt and equity securities issued by a CLO for the period required under such Risk Retention Regulations. Consequently, upon the effectiveness of the Risk Retention Regulations, a certain proportion of the debt and equity securities issued by a CLO that would have otherwise been issued to investors will no longer be marketed, which will decrease investment opportunities for Clients as the amount of the debt and equity securities issued by a CLO available for investment will be reduced. The additional capital requirements introduced by the Risk Retention Regulations may also impact the number of CLOs that are formed either by HPS or within the market, potentially further impacting the investment opportunities for applicable Clients. There can be no guaranty that the any such applicable Client will be able to locate sufficient investment opportunities.

**Effect on the Clients of the Dodd-Frank Act.** Although HPS is no longer a related person of JPM following the Transaction noted above in Item 4, during the period when JPM retains a non-voting minority interest in HPS, HPS and the Relying Advisers will continue to be deemed indirectly controlled by JPM for purposes of the BHCA, and therefore will be subject to certain provisions of the Dodd-Frank Act. The Dodd-Frank Act includes certain provisions known as the “**Volcker Rule**” that restrict banking entities, or entities over which a banking entity has control, from acquiring or retaining any equity or other ownership interest in, or sponsoring, certain private funds (referred to in the final rules implementing the Volcker Rule as “covered funds”). However, the final rules permit a banking entity to organize and offer a covered fund if certain conditions are satisfied, including the requirement that the banking entity does not acquire an equity interest or other ownership interest in the covered fund except for a permitted investment (generally, not more than 3% of the total number or value of outstanding ownership interests of the fund) as defined in the final regulations.

The Volcker Rule’s prohibition on “covered transactions,” as defined in section 23A of the Federal Reserve Act, between HPS or any of its affiliates or applicable JPM entities and Clients, or any other covered fund that is controlled by Clients, may restrict the activities of certain Clients. There may be certain investment opportunities, investment strategies or actions that HPS will not undertake on behalf of its Clients as a result of the restrictions of the Volcker Rule. Further, the investment opportunities, investment strategies or actions of the Clients may be limited in order to comply with the Volcker Rule’s restriction on material conflicts of interest. A fund that is not advised by HPS or its affiliates or JPM may not be subject to these considerations.

**Alternative Investment Fund Managers Directive.** The Alternative Investment Fund Managers Directive (the “**AIFM Directive**”) seeks to regulate “alternative investment fund managers” (each an “**AIFM**”) based in the European Economic Area (“**EEA**”) and prohibits such managers from managing any alternative investment fund (“**AIF**”) or marketing shares in such funds to EEA investors within the EEA unless authorization is granted to the AIFM. Furthermore, the AIFM Directive imposes conditions on the marketing of funds established outside the EEA and/or with non-EEA based managers to EEA investors (“**EEA Investors**”) in the EEA and requires that an AIFM be identified to meet such conditions where such marketing is sought. For these purposes, HPS, as the legal person responsible for performing the portfolio and risk management of the Clients, will be the AIFM.

The AIFM Directive imposes detailed and prescriptive obligations on fund managers established in the EEA (“**Operative Provisions**”). These Operative Provisions include prescriptive rules on: measuring and capping leverage in line with known European standards; the treatment of the limited partners; the use of “depositaries”; and cover for professional liability risks. However, managers established outside of the EEA, such as HPS, are required to comply only with certain disclosure, reporting and transparency obligations of the AIFM Directive (“**Disclosure Provisions**”) if the managers market interests in a fund to EEA Investors.

HPS will not market its Clients into any jurisdiction in the EEA that has implemented the AIFM Directive until appropriate regulatory filings have been made, at which point the relevant Governing Document will be supplemented in order to comply with the Disclosure Provisions.

Any regulatory changes arising from implementation of the AIFM Directive (or otherwise) that would impair the ability of HPS to manage the investments of Clients, or limit the ability for future issuances of interests in the HPS Funds or Third Party Funds to be marketed in the EEA, may materially adversely affect the Clients’ ability to carry out their investment strategy and achieve their investment objectives.

**Investment in the HPS Funds and Third Party Funds involves significant risks and is suitable only for investors who can bear the economic risk of loss of their entire investment and who generally have limited need for liquidity in their investment. There can be no assurance that the HPS Funds or Third Party Funds will achieve their investment objectives. Investment in the HPS Funds and Third Party Funds carries with it inherent and material risks that investors may be subject to other than those described above. Additional risks pertaining to specific HPS Funds and Third Party Funds are disclosed in greater detail in the Governing Documents of each HPS Fund and Third Party Fund. We encourage prospective investors to carefully review the full description of risk factors presented in the applicable Governing Documents prior to making a decision to invest in an HPS Fund or Third Party Fund. Any losses incurred by investors in an HPS Fund or Third Party Fund will be borne solely by such investors and not by HPS or its affiliates or subsidiaries; therefore any losses of HPS and its affiliates and subsidiaries in such HPS Fund or Third Party Fund will be limited to losses attributable to their ownership interests in such HPS Fund or Third Party Fund (if any) in their capacity as investors in the HPS Fund or Third Party Fund.**

**Item 9 - Disciplinary Information**

HPS does not believe that there have been any legal or disciplinary events that are material to its advisory business or the integrity of its management.

## **Item 10 - Other Financial Industry Activities and Affiliations**

### **Relying Advisers**

HPS, either directly or indirectly, controls the following Relying Advisers, as defined above in Item 4:

- HPS Mezzanine Partners, LLC (“**HMP**”);
- HPS Mezzanine Partners II, LLC (“**HMPII**”);
- HPS Mezzanine Management III, LLC (“**HMPIII**”);
- HPS Opportunities SL Management, LLC (“**HPS-OSL**”);
- Constellation Growth Capital LLC (“**GCG**”);
- CVC III Partners LLC (“**CVC**”); and,
- HPS Investment Partners (UK) LLP (“**HPS-UK**”).

Each of the Relying Advisers is involved in identifying and monitoring investments recommended or made on behalf of one or more Clients. The Relying Advisers conduct no other investment advisory activities. Principals and employees of the Relying Advisers are subject to HPS’s Code of Ethics.

HMP was formed in November 2007, HMPII was formed in January 2012, HMPIII was formed in January 2016, HPS-OSL was formed in March 2016, CGC was formed in September 2008, and CVC was formed in April 2007. Each of HMP, HMPII, HMPIII, HPS-OSL, CGC, and CVC is a subsidiary of HPS. Principals, employees, and certain affiliates of HPS have made commitments to invest in certain HPS Funds and Third Party Funds managed by HPS or a Relying Adviser.

HPS-UK, an indirect subsidiary of HPS in the United Kingdom, was organized in December 2007 and has its principal place of business at Devonshire House, 1 Mayfair Place, London W1J 8AJ. HPS-UK is authorized in the United Kingdom to carry out asset management services.

CGC has a sub-advisory agreement with Bear Stearns Asset Management Inc. (“**BSAM**”), an affiliated investment adviser of JPM, to manage certain private equity funds. BSAM also has a revenue sharing arrangement with CGC.

### **SEC and CFTC (Commodity Pool Operator and Commodity Trading Advisor)**

HPS is registered with the SEC as an investment adviser and is currently exempt from registration with the CFTC as a commodity trading advisor and a commodity pool operator.

### **Services Agreements with Financial Industry Participants**

In connection with the Transaction noted above in Item 4, and to facilitate an orderly separation of HPS from JPMAM and HCM and in an effort to ensure the continuity of services necessary to operate HPS’s business, HPS and its affiliates have obtained, and intend to continue to obtain certain operational and financial services from JPMAM (including HCM) and certain of its employees for a limited period of time following the Transaction as part of a transition services agreement (the “**Transition Services Agreement**”).

### **Allocation of HPS Investment Professional Resources**

As discussed in Items 4 and 8 above, the functions performed by HPS are not exclusive to any one HPS Fund or Third Party Fund. The officers and employees of HPS and its affiliates will devote such time as

HPS deems necessary to carry out the operations of the Clients effectively. HPS has rendered in the past and will continue to render in the future various services to others (including investment vehicles and accounts which have the ability to participate in similar types of investments as those of the Clients) and perform a variety of other functions that are unrelated to the management of the Clients and the selection and acquisition of the Clients' investments.

Future investment activities by HPS on behalf of the HPS Funds and Third Party Funds may give rise to additional conflicts of interest and may make demands on HPS's time and resources.

### **Selection of Service Providers**

The Clients' advisors and service providers (including accountants, administrators, lenders, bankers, brokers, attorneys, tax counsel, consultants and investment or commercial banking firms) or their affiliates may provide goods or services to, or have business, personal, financial or other relations with HPS, its affiliates, Clients, and/or portfolio companies. Such advisors and service providers may be investors in one or more of the Clients, sources of investment opportunities or co-investors or commercial counterparties or entities in which HPS has an investment.

Except as required within a Client's Governing Documents, HPS will generally have the discretion to select service providers independent of review by investors or consent by any relevant Client or limited partner advisory committee. The Clients, unless otherwise specified or agreed, will bear the cost of all such service providers, as appropriate.

On occasion, the service providers that HPS selects for one or more of the Clients may also provide services to HPS, its affiliates, or a portfolio company in a different capacity and/or at different rates. Fee discounts may be granted to the Clients or HPS, its affiliates, or a portfolio company in connection with such engagement and not any of the others. This may create a potential conflict of interest where the interests of the parties may not be aligned where, for example, a law firm may be, at the same time, engaged to provide services to both HPS and one or more of the Clients or a portfolio company.

Additionally, certain employees of HPS may have family members or relatives employed by such advisors and service providers. These relationships may influence HPS or its affiliates or the applicable general partners in deciding whether to select or recommend such service providers to perform services for the Clients or portfolio companies (the cost of which will generally be borne directly or indirectly by the Clients or such entities, as applicable).

Conflicts of interest associated with the selection of service providers are attempted to be mitigated by the use of reasonable diligence to determine whether a service provider, including without limitation, law firms, would provide its services on a "best execution" basis by taking into account such factors as expertise, availability and quality of service, competitiveness of compensation rates, operational and regulatory controls, and comparing those factors with other similar service providers.

Additionally, risks associated with service providers are discussed in Item 8 above.

### **Diverse Membership; Relationships with Investors**

The HPS Funds or Third Party Funds and their investors may have conflicting investment, tax and other interests with respect to the investments made by the Clients, including as a result of a domestic Client's participation in and/or sales of certain senior securities. The investors of the HPS Funds or Third Party Funds are expected to include persons or entities organized in various jurisdictions and different investors may have conflicting investment, tax and other interests in respect of their investments in one or more of

the HPS Funds or Third Party Funds. The conflicting interests of the Clients and of individual investors may relate to or arise from, among other things, the nature of investments made by the Clients, the structuring of the acquisition of the Clients' investments, and the timing of disposition of investments, which may be more beneficial for one or more of the Clients and their respective investors than for one or more of the other Clients and their respective investors. Such structuring of the Clients' investments and other factors may result in different returns being realized by different investors. As a consequence, conflicts of interest may arise in connection with decisions made by HPS or its affiliates or the relevant general partners, including in respect of the nature or structuring of investments and the use of AIVs, that may be more beneficial for one investor than for another investor, especially in respect of investors' individual tax situations. In addition, the Clients, HPS, the relevant general partners and/or their affiliates may face certain tax risks based on positions taken by the Clients, their subsidiaries and/or a withholding agent, and HPS and the relevant general partners each reserve the right on behalf of itself and their affiliates to take positions adverse to the Clients and the Clients' investors, including with respect to withholding of amounts to cover actual or potential tax liabilities.

HPS may enter into strategic partnerships directly or indirectly with investors that commit significant capital to a range of products and investment ideas sponsored by HPS. Such arrangements may include HPS granting certain preferential terms to such investors, including blended fee and carried interest rates that are lower than those applicable to Clients when applied to the entire strategic partnership. Such preferential terms are generally not subject to the "most favored nation" provisions of the Governing Documents of a particular Client. Investors may be able to elect to benefit from such arrangements if they comply with the general parameters of the entire strategic partnership.

### **Business with Portfolio Companies and Investors**

Given the collaborative nature of the business HPS and its affiliates conduct with the portfolio companies and investors, there could be instances where HPS and one or more of its affiliates transacts with a current or past portfolio company or investor in a manner other than in connection with investment activity.

#### *Positions with Portfolio Companies*

HPS investment professionals, including current and former personnel, will from time to time serve on the boards of directors of one or more portfolio companies in connection with the governance rights afforded to the Clients as part of their investment in such portfolio company. In such instances, members of an HPS investment team and officers and employees of HPS are expected to serve as directors of certain portfolio companies and, in that capacity, will be required to make decisions that they consider to be in the best interests of such portfolio company.

In these scenarios, while the interests of a Client in a portfolio company will generally align with those of investors more broadly, it is possible that the applicable HPS investment professional's fiduciary duties to the portfolio company as an investor may conflict with those of the applicable HPS investment professional as director of such portfolio company and therefore conflict with the interests of the Clients.

In certain circumstances, such as in situations involving bankruptcy or near insolvency of the portfolio company, actions that may be in the best interests of the portfolio company may not be in the best interests of the Clients, and vice versa. Accordingly, in these situations, there may be conflicts of interest between an HPS investment professional's duties as a member of the investment team or officer or employee of HPS and such HPS investment professional's duties as a director of the portfolio company.

Additionally, the applicable general partners, HPS, or affiliates of the applicable general partners or HPS may enter into transactions with a portfolio company (for example, a property lease), which may create a

conflict of interest. While it is generally expected that any such transaction would be on arm's-length terms, it is possible that the portfolio company may pay higher fees or receive fewer benefits in the transaction than it would if the counterparty to the transaction were a third party.

Additionally, during their employment with HPS, certain HPS investment professionals may serve in interim roles or may provide additional services as a secondee or in a similar capacity at portfolio companies.

#### *Relationships with Portfolio Company and Investors*

Portfolio companies or investors may make discounts or other benefits available to HPS, its affiliates, or its employees in connection with products or services provided by such portfolio company or investor. HPS may, from time to time, engage in business opportunities (such as joint ventures or strategic partnerships) with portfolio companies or investors. In certain instances, portfolio companies controlled by HPS or an affiliate may, from time to time, provide services to HPS or certain Clients. An incentive exists for HPS to cause the portfolio company to provide such services at a discount, which could adversely affect the profitability of such portfolio company. HPS and its affiliates have the discretion to utilize the services of investors or portfolio companies on an arm's-length basis, as they deem appropriate.

#### *Transactions that May Benefit Investors*

HPS or its affiliates may from time to time engage in transactions with current or prospective investors that entail business benefits to such investors. Such transactions may be entered into independently or in connection with any such investor's decision to invest in one or more Clients or at some point during the term of the investment. The type of such transactions can vary greatly and may or may not include benefits to one or more Clients and, potentially, one or more of the portfolio companies or a Client. An example of a transaction that may provide a benefit to an investor is the opportunity to co-invest alongside a Client.

#### *Employment Opportunities*

Consistent with applicable law and internal policies regarding, among other things, anti-corruption and the protection of proprietary information, HPS or its affiliates may, from time to time, hire short- or long-term personnel or interns who are relatives of or otherwise associated with one or more investors, portfolio companies or service providers. HPS has adopted policies and procedures designed to mitigate the potential conflicts of interest that could be associated with any such extension of short- or long-term employment; however, there can be no guarantee that HPS's internal policies can account for all possible conflicts of interest that could arise with respect to such activity and, in some circumstances, the appearance of a conflict of interest may exist.

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

HPS has adopted a Code of Ethics (the “**Code**”), and each of the Relying Advisers has adopted the Code as well. The Code obligates all principals, officers, directors, employees and other persons associated with HPS and the Relying Advisers or as designated by HPS’s Compliance Department (the “**Compliance Department**”) (all such persons, “**Supervised Persons**”) to put the interests of the Clients of HPS before their own personal interests in connection with their fiduciary duties. All of the Supervised Persons are also required to comply with all applicable federal securities laws and to report violations of the Code. As part of the Code, HPS has adopted policies and procedures that are designed to mitigate potential conflicts of interest including, but not limited to, those related to insider trading and the misuse of material non-public information, personal trading, political contributions, and outside activities. HPS also maintains a gifts and entertainment policy requiring the reporting of gifts and entertainment and restricts the acceptance of certain gifts. On at least an annual basis, but more often quarterly, Supervised Persons are required to complete certifications with respect to their personal accounts, holdings, transactions, political contributions, outside activities, and gifts and entertainment for the preceding period.

As part of HPS’s personal trading policy, Supervised Persons of HPS are required to disclose their securities holdings. Trading in securities in personal accounts of Supervised Persons as well as the purchase of any private placement or other private investment is subject to preclearance by the Compliance Department. Holding periods (generally 60 days) apply to purchases and sales of securities in personal trading accounts. Securities that have been or may be traded for Client accounts may not be traded in personal trading accounts during certain blackout periods. Generally, no Supervised Person may purchase a security in an initial public offering. Trading in employee accounts is reviewed by the Compliance Department on a pre- and post-trade basis. The Compliance Department may choose to grant exceptions to the personal trading policy in limited circumstances, based on the consideration of individual facts and circumstances.

Current and prospective Clients and investors may obtain access to a copy of the Code by contacting the Compliance Department at (212) 287-6767.

### **Employee Investments in HPS Funds or Third Party Funds**

As noted above, the principals, employees or other related persons of HPS may from time to time purchase interests in one or more Clients.

Under certain circumstances, and subject to applicable law and relevant regulatory requirements such as the Volcker Rule, Clients may invest in connection with a transaction in which HPS or its principals or employees or their respective affiliates (the “**Affiliated Group**”) have already invested or are expected to invest. Members of the Affiliated Group may trade for their own accounts and may invest in and trade the same securities and instruments that a Client invests in and trades.

In addition, the Affiliated Group may manage accounts for other individuals or entities, including entities in which the Affiliated Group or its directors or employees may hold an interest, either directly in Third Party Funds or indirectly through investments in HPS Funds. Any of such accounts may pay different fees, trade with different amounts of leverage or utilize different trading strategies than the Clients. In addition, Clients may enter into transactions with such accounts and the Affiliated Group may invest in and trade the same securities and instruments on behalf of such accounts that a Client invests in and trades. The Affiliated Group or its personnel may have income or other incentives to favor such accounts.



HPS, however, will not knowingly or deliberately favor any such accounts over the Clients in its dealings on behalf of such accounts.

HPS may recommend that certain Clients invest all of their investable assets in other Clients pursuant to a master-feeder fund structure. In addition, HPS and its affiliates, on the one hand, and one or more Clients, on the other, may invest in different classes of securities of the same issuer, and the classes in which HPS and its affiliates invest may not have the same rights as the classes in which such Clients invest. Moreover, multiple Clients may pursue or enforce rights with respect to a particular issuer, or HPS or its affiliates may pursue or enforce rights with respect to a particular issuer on behalf of one or more Clients, and such actions may not always be favorable to each of the Clients. Finally, as discussed below, in certain instances, personnel of HPS may obtain information about an issuer that is material to the management of certain Clients' portfolios and that could limit the ability of personnel of HPS to buy or sell securities of the issuer on behalf of other Clients. These facts are disclosed, when applicable, in the Governing Documents of each Client that is provided to each investor.

The principals, employees or other related persons of HPS may from time to time purchase interests in certain Clients that are "master funds" in which certain other Clients invest pursuant to a master-feeder fund structure.

#### **Employee Investments in Third Party Entities**

In addition, members of the Affiliated Group, including employees of HPS, may make personal investments in third party entities (directly or through investment funds managed by third party managers). Such entities may enter into transactions with one or more of the Clients, presenting a conflict of interest for HPS between acting in the best interests of the Clients and enhancing the returns of such personal investments.

#### **Information Sharing; Material Non-Public Information**

As referenced in Item 10 above and in connection with the transitional process to facilitate an orderly separation of HPS from JPMAM and HCM as a result of the closing of the Transaction, HPS has adopted information sharing policies and procedures related to communications between certain infrastructure employees (e.g., Operations, Compliance, Accounting, Technology, among others) of HPS, HCM, and JPMAM. Additionally, it is HPS's policy that communications and the sharing of information between investment professionals of HPS and HCM are generally prohibited.

Due to HPS's investment activities, there are many avenues through which HPS may come into possessions of material non-public information. As discussed above in Item 8 and elsewhere in this brochure, HPS's ability to trade for the Clients may be impaired, depending on the specific trading instrument in question, which could impact the investment objectives and returns of such Clients until such time that it has been determined that HPS has been cleansed of all relevant material non-public information.

As such, HPS maintains a restricted list which is composed of companies whose securities are subject to certain trading prohibitions due to HPS's or its affiliates' business activities.

#### **Employees as Directors of One or More HPS Funds or Third Party Funds**

In addition, employees that are invested in one or more Clients may also serve on the board of directors of certain Clients. The Governing Documents of each HPS Fund or Third Party Fund that is provided to each investor discloses such affiliated directorship, where applicable.

### **Cross Trades and Principal and Agency Cross Transactions**

Subject to requirements of applicable law, and without limiting the generality of the foregoing, HPS may from time to time cause a Client to sell or transfer a security or an instrument to another Client. HPS may engage in the practice of cross trading in order to “rebalance” the portfolios, where a particular Client needs liquidity, where investment objectives differ, to reduce or eliminate transaction costs or market impact, in order to combine accounts or otherwise. HPS has adopted policies and procedures designed to appropriately manage the conflicts associated with such transactions.

Certain Clients may engage in principal transactions or agency cross transactions involving HPS, certain affiliates of HPS and Clients managed by HPS as counterparty, in all cases subject to applicable law, including the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”), and the Dodd-Frank Act. These transactions create a conflict of interest between HPS’s interest in assuring that Clients receive best execution on all transactions and in limiting or reducing the fees paid by the Clients, and HPS’s interest in generating profits and fees for itself and its affiliates. In order for the Clients to enter into certain principal and agency cross transactions with or through HPS or an affiliate of HPS in an efficient manner that is also consistent with Section 206(3) of the Advisers Act, the board of directors, general partner or investment manager of the Client (or their delegate) may seek the relevant Client’s or limited partners’ advisory committee approval of, or select a third party unaffiliated with HPS to review and approve or disapprove, any such transactions consistent with applicable law. If a third party is selected, such unaffiliated party may perform other services for Clients, including valuation services.

### **Relationship with JPM**

HPS was originally formed in 2007 as a subsidiary of HCM, which in turn is a subsidiary of JPMAM. JPMAM is a subsidiary of JPM. As disclosed in Item 4 above, on March 31, 2016, the senior executives of HPS acquired HPS and its subsidiaries from HCM and JPM pursuant to the Transaction. As a result of the Transaction, HPS is treated as independent from JPM, although JPM currently retains, and may for a number of years continue to retain, a non-voting minority interest in HPS. As a result of such ownership interest, HPS will continue to be deemed indirectly controlled by JPM for purposes of the BHCA.

There is no guarantee that HPS will be able to successfully transition, maintain and continue to build its business after the Transaction. In particular, as with any change in ownership, HPS will be subject to substantial risks, including the long-term retention of key employees and enhancement of back office functions previously shared with HCM. JPMAM and HCM are no longer involved in the management of HPS or the Fund, and neither JPMAM nor HCM will provide any support to HPS’s Clients except as negotiated pursuant to arm’s-length services agreements approved by applicable regulators. Further, in connection with the Transaction, HPS incurred substantial leverage to finance the acquisition, which may adversely affect the continued operation of the HPS business going forward. New and additional risk factors may arise relating to the transition of HPS to a standalone business and the operation of HPS going forward.

JPM’s continuing minority interest in HPS creates certain conflicts of interest with respect to the transactions of the HPS Funds and the Third Party Funds and these Clients’ other relationships with JPM. The Clients may enter into certain transactions with JPM as counterparty, subject to applicable law, including the Dodd-Frank Act. Subject to applicable law, HPS may retain JPM as a clearing or executing broker for the Clients. JPM may also execute brokerage transactions between the Clients and other clients and may receive commissions from both parties to such transactions. In particular, the Clients may participate as a counterparty with, or as counterparty to, JPM in connection with currency and interest rate hedging, other derivatives and other transactions, in all cases subject to applicable law,

including the Dodd-Frank Act. In this regard, the Clients may establish a borrower or other relationship with JPM to facilitate and improve execution with respect to transactions of the Clients. These transactions create a conflict of interest between the interests of HPS in assuring that the Clients receive best execution on all transactions and in limiting or reducing the fees paid by the Clients, and HPS's interest (if any) in generating profits and fees for JPM.

JPM is actively engaged in advisory, trade support and management services for multiple collective investment vehicles and managed accounts, including those that employ the same or similar trading strategies as the Clients. Such accounts may compete with the Clients and invest in different instruments or classes of securities of the same issuer, including short positions. In addition, JPM has, and continues to develop, banking and other financial and advisory relationships with numerous domestic and overseas companies and governments, including potential buyers and sellers of businesses worldwide. For example, JPM may act as originator and/or arranger and receive fees from the Clients' actual or target portfolio companies. JPM may advise, represent or provide financing to other entities that may have invested or wish to invest in such companies. JPM may also make markets and conduct trading activities for itself or its other clients in the same loans as those owned by the Clients. It should be recognized that JPM's activities may compete with or otherwise adversely affect the Clients or their investments. JPM is under no obligation to take into account the interests of any Affiliated Group Accounts, including the Clients, in conducting any such activities, or present any investment opportunities to them.

If permitted by applicable law, including the Dodd-Frank Act, the Clients and portfolio companies may make short term investments of excess cash in money-market funds and other instruments sponsored and/or managed by JPM. In connection with any of these investments, the Clients and/or portfolio companies, as the case may be, will pay all fees pertaining to investments in such money-market funds, and, in such event, no portion of any fees otherwise payable by the Clients or portfolio companies, as the case may be, will be offset against fees payable in accordance with any of these investments. In these circumstances, as well as in other circumstances in which JPM receives any fees or other compensation in any form relating to the provision of services, no accounting or repayment to the Clients and portfolio companies, as the case may be, will be required.

The Clients may, subject to applicable law and approvals, invest in transactions in which JPM acts as originator and/or arranger and receives fees from these sponsors. In certain of these transactions, the Clients may purchase securities and receive representations and warranties directly from the issuer, including in purchases by the Clients from or alongside JPM. In other circumstances, the Clients may purchase securities from JPM or other parties and in so doing may rely on an offering memorandum rather than direct representations and warranties from the issuer, and may purchase such securities at different times and/or on different terms than other purchasers. If the Clients were to purchase securities from JPM, or if JPM were to receive a fee from an issuer for placing securities with the Clients, certain conflicts of interest would be inherent in the transaction because of JPM's minority interest in HPS.

Under the Dodd-Frank Act and the Volcker Rule, (A) none of HPS, JPM or any of their affiliates will be permitted to enter into a transaction with certain Clients that would be a "covered transaction," as defined in section 23A of the U.S. Federal Reserve Act, as if HPS, JPM and their affiliates were member banks and such Clients were affiliates thereof and (B) HPS and JPM will be required to comply with section 23B of the U.S. Federal Reserve Act, as if HPS, JPM and their affiliates were member banks and such Clients were affiliates thereof. A "covered transaction" includes, among other things, a loan or extension of credit to an affiliate (including a derivative transaction giving rise to "credit exposure" to an affiliate); a purchase of or an investment in, a security issued by an affiliate; a purchase of assets from an affiliate; and the issuance of a guarantee or letter of credit on behalf of an affiliate. Section 23B of the U.S. Federal Reserve Act generally requires, among other things, that the terms of transactions be substantially

the same, or at least as favorable to the banking entity, as those prevailing at the time for comparable transactions with nonaffiliated companies.

During the period when JPM will continue to hold a non-voting minority interest in HPS, HPS will continue to be deemed indirectly controlled by JPM for purposes of the BHCA, which may require that certain HPS investment activities on behalf of certain Clients be restricted, in particular with respect to any transactions with JPM.

### **BHCA Considerations**

As discussed elsewhere, certain Clients may be deemed indirectly “controlled” for purposes of the BHCA. As a result, so long as such Clients are deemed “controlled,” those Clients will be limited in investment activities, including the amount of their equity investment in a particular issuer, the length of time that they may hold a particular investment, and if applicable, the ability to have input into the business plans of an issuer. In addition, during any time Clients are deemed “controlled,” for purposes of calculating maximum permitted ownership under various statutes, positions held by such Clients will be aggregated with positions held by JPM and certain accounts managed by affiliates of JPM.

Certain HPS Funds will be treated as affiliated entities for purposes of Sections 23A and B of the Federal Reserve Act, as amended. Those sections require that entities deemed to be “controlled” by a banking entity for purposes of the BHCA, such as JPM, comply with certain standards and restrictions in dealing with affiliates such as HPS. As a result, certain HPS Funds may be prohibited from engaging in certain transactions directly with JPM.

### **JPM Special Purpose Vehicles**

JPM and its affiliates have established various special purpose vehicles (the “**JPM SPVs**”) for certain JPM clients to hold interests in certain HPS Funds or Third Party Funds. HPS does not serve as the investment manager of the JPM SPVs.

J.P. Morgan Private Investments Inc. (“**JPMPI**”), a wholly owned subsidiary of JPM, is the administrator of the JPM SPVs. JPMPI, on behalf of the JPM SPVs, has engaged Harmonic Fund Services (“**Harmonic**”) to provide certain administrative functions to the JPM SPVs. Harmonic also serves as the administrator for certain HPS Funds. JPMPI has no role in the business, operations, investments or investment decisions of HPS Funds, and JPMPI does not serve as administrator to HPS Funds.

HPS may in the future advise other HPS Funds or Third Party Funds and may establish and/or advise other investment vehicles.

### **Conflicts of Interest Generally**

From time to time, various potential and actual conflicts of interest arise from the overall investment activities of HPS and its affiliates. The following briefly summarizes some of these conflicts, but is not intended to be an exclusive list of all such conflicts. Investors should consult the applicable Client’s Governing Documents for a more complete listing of applicable conflicts. Any references to HPS in this section will be deemed to include its affiliates, partners, members, shareholders, officers, directors, and employees.

If any matter arises that HPS determines in its good faith judgment constitutes an actual conflict of interest, HPS will take such actions as it determines in good faith may be necessary or appropriate to ameliorate the conflict (and upon taking such actions HPS will be relieved of any liability for such

conflict to the fullest extent permitted by law and shall be deemed to have satisfied applicable fiduciary duties related thereto to the fullest extent permitted by law). These actions include, by way of example and without limitation: (i) presenting a conflict of interest to the respective Client or limited partner advisory committee as expressly provided for in the applicable Governing Documents, (ii) disposing of the security giving rise to the conflict of interest; (iii) appointing an independent fiduciary to act with respect to the matter giving rise to the conflict of interest; (iv) in connection with a matter giving rise to a conflict of interest with respect to an investment, consulting with the respective Client or limited partner advisory committee regarding the conflict of interest and either obtaining a waiver or consent from such Client or limited partner advisory committee of the conflict of interest or acting in a manner, or pursuant to standards or procedures, approved by such Client or limited partner advisory committee with respect to such conflict of interest, (v) disclosing the conflict to the investors and Clients, or (vi) implementing certain policies and procedures designed to ameliorate such conflict of interest. There can be no assurance that HPS will identify or resolve all conflicts of interest in a manner that is favorable to its Clients. By acquiring an interest in a Client, each investor therein will be deemed to have acknowledged and consented to the existence or resolution of any such actual, apparent or potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest.

Specified policies and procedures implemented by HPS to mitigate potential conflicts of interest and address certain regulatory requirements and contractual restrictions will from time to time reduce the synergies across HPS' various business lines and investment strategies that Clients expect to draw on for purposes of pursuing attractive investment opportunities. In addressing these conflicts and regulatory, legal, and contractual requirements across its various business lines and investment strategies, HPS has implemented certain policies and procedures that may reduce the positive synergies that Clients could otherwise expect to utilize for purposes of finding attractive investments. For example, as described further below, HPS will from time to time come into possession of material non-public information with respect to companies in which Clients may be considering making an investment. As a consequence, that information, which could be of benefit to a Client, might result in an investment opportunity becoming restricted to other Clients and otherwise being unavailable to such other Clients for investment. Additionally, the terms of confidentiality or other agreements with or related to companies in which any Client has or has considered making an investment will from time to time restrict or otherwise limit the ability of other Clients and/or their portfolio companies and their affiliates to make investments in or otherwise engage in businesses or activities competitive with such companies.

### **Competition Among the HPS Funds, Third Party Funds, and Other Affiliated Group Accounts**

#### *Investment Advisory Services to Multiple Clients*

The Affiliated Group is actively engaged in advisory and management services for multiple collective investment vehicles and managed accounts (each, an “**Affiliated Group Account**” and together, the “**Affiliated Group Accounts**”). Those activities include managing assets of employee benefit plans that are subject to ERISA and related regulations. As discussed in Item 4 above, the Affiliated Group may sponsor or manage additional collective investment vehicles and managed accounts in the future. The Affiliated Group may employ the same or different investment strategies for the various Affiliated Group Accounts it manages or otherwise advises. Investment opportunities that may potentially be appropriate for the Clients that pursue one investment strategy may also be appropriate for other Affiliated Group Accounts. Thus, such Affiliated Group Accounts may compete with such Clients for positions and may compensate the Affiliated Group better than such Clients. Investments which are within the investment objective of a Client may be allocated to other Affiliated Group Accounts, and there is no assurance that such Client will be allocated those investments it wishes to pursue. In addition, investors should note that such other Affiliated Group Accounts may use leverage, be subject to different fee structures and/or

liquidity terms and focus on different investments than such Client. Investments of such other Affiliated Group Accounts and a Client may not, and often will not, be parallel for such, and various other reasons, including different inflows and outflows of capital, variations in strategy, liquidity terms, governmental limitations on investment and other differences. The results of the investment activities of a Client may differ significantly from the results achieved by Affiliated Group Accounts that implement the same or a similar investment strategy as such Client.

Under certain circumstances, a Client may invest in connection with a transaction in which Affiliated Group Accounts have already invested or are expected to invest. Under other circumstances, an Affiliated Group Account may invest in a portfolio company in which a Client has already invested or is expected to invest and may invest in a Client itself. In some cases, HPS may invite Affiliated Group Accounts to co-invest with a Client because, for example, the investment opportunity is larger than the target investment amount for the Client or because co-investing with Affiliated Group Accounts may provide the Client or the portfolio company in which the Client invests with certain benefits. In such cases, the amount available for investment by the Clients may be correspondingly reduced to permit the Affiliated Group Accounts the opportunity to co-invest. Where an investment is allocated among a Client as well as one or more Affiliated Group Accounts, such investment opportunity may be allocated based on one or more factors which may include available capital, available leverage, duration of commitment period, applicable investment restrictions, investment objectives, expected investment pipeline, size of the investment opportunity, and legal, tax and regulatory considerations. The Clients may also partner with other entities in which the Affiliated Group holds an investment or with which the Affiliated Group has a significant business relationship.

Where a Client invests in the same issuer as an Affiliated Group Account, the terms of the Client's investment, including the type of instrument purchased, may be different from the terms of the Affiliated Group Account's investment or the type of instrument the Affiliated Group Account purchases. The Affiliated Group Accounts may be given certain governance or other rights or may be subject to terms and conditions that are more favorable than those applicable to a particular Client. Conflicts could arise after the Affiliated Group Account, on the one hand, and a Client, on the other hand, make investments in the same issuer related to the issuer's strategy, growth and financing alternatives and with respect to the manner and timing of the Client's exit from the investment compared to the Affiliated Group Account's exit. The Affiliated Group Accounts may make decisions that are more beneficial to themselves than to a particular Client. Further, investments may benefit one or more of the Affiliated Group Accounts disproportionately over a Client. Conversely, the interests of one or more of the Affiliated Group Accounts in one or more investments may, in the future, be adverse to that of a Client, and HPS may be incentivized not to undertake certain actions on behalf of a Client in connection with such investments, including the exercise of certain rights such Client may have, in view of the investment by the Affiliated Group in such investments.

Positions taken by Affiliated Group Accounts may also dilute or otherwise negatively affect the values, prices or investment strategies associated with investments held by a Client. For example, this may occur when investment decisions regarding the Client are based on research or other information that is also used to support portfolio decisions for other Affiliated Group Accounts. When an Affiliated Group Account implements a portfolio decision or strategy ahead of, or contemporaneously with, similar portfolio decisions or strategies for a Client (whether or not the portfolio decisions emanate from the same research analysis or other information), market impact, liquidity constraints, or other factors could result in the Client receiving less favorable investment results. The costs of implementing such portfolio decisions or strategies could be increased or the Client could otherwise be disadvantaged. In addition, Affiliated Group Accounts may have short positions in the same security or instrument or a different security or instrument in the same issuer as a security or instrument purchased by a Client, which may present additional conflicts, particularly if the issuer experiences financial difficulties.

In addition, during the terms of the relevant Clients or their Governing Documents, as applicable, HPS may sponsor or manage collective investment vehicles or managed accounts that employ a similar strategy as one or more of the Clients and may permit existing or future funds to have exclusive rights to certain investment opportunities. As a result, the Clients may not be afforded the chance to participate in attractive investment opportunities in which other Affiliated Group Accounts are given the opportunity to participate, or in some cases may be allocated a small part of an investment opportunity within the investment objectives of the Clients when other Affiliated Group Accounts are allocated a larger portion. A Client may be prohibited (due to, for example, regulatory limitations or exclusivity rights granted to other investment funds) from pursuing certain investment opportunities and may find that its ability to participate in any particular opportunity may be substantially limited.

### **HPS Funds or Third Party Funds with Conflicting Positions**

Certain Clients have in the past made, and are expected to make, investments in companies in which another Client holds an investment in a different class of such company's debt or equity. In such circumstances, HPS faces certain conflicts in making decisions with respect to such securities given their different rights and economic interest in the company that may have an adverse effect on one or more of the Clients. Generally speaking, HPS expects that a Client will make such investments when, at the time of its investment, HPS in its sole discretion believes that (a) such investment presents an attractive investment opportunity for each eligible Client and (b)(i) the possibility of actual adversity between Clients is remote or (ii) in light of the particular circumstances, HPS believes that such investment is appropriate for the eligible Client, notwithstanding the potential for conflict. In those circumstances where Clients hold investments in different classes of a company's debt or equity, HPS may, to the fullest extent permitted by applicable law, take steps to reduce the potential for adversity between each Client, including causing the first account to take certain actions that, in the absence of such conflict, it would not take, such as (i) remaining passive in a restructuring or similar situations (including electing not to vote or voting pro rata with other security holders), (ii) investing in the same or similar classes of securities as the second Client in order to align their interests, (iii) divesting investments or (iv) otherwise taking an action designed to reduce adversity. Any such step could have the effect of benefiting one Client or HPS or its affiliates and might not be in the best interests of or may be adverse to another Client. In addition, HPS may cause the Client with the subordinated interest to purchase all of the more senior securities held by the other Client at the par value of such securities. In such circumstances, the purchase price received by the Client with the more senior interest may not represent the fair market value of the applicable securities and may result in a premature exit from the investment by such Client.

The conflicts of interest associated with investing in multiple layers of an issuer's capital structure are highlighted when the issuer experiences financial or operational challenges as the Clients that hold the debt, may seek a liquidation of the issuer, whereas the Clients that hold the equity instruments, may prefer a reorganization of the issuer. Similarly, where an issuer experiences financial or operational difficulties, if one or more of the Clients holds subordinated and unsecured debt, and another Client holds senior secured debt instruments, of such issuer, the Clients that hold the senior secured debt instruments may enforce or help other senior secured creditors enforce their rights against the issuer and as a result, the value of the Clients that are invested in the issuer's subordinated or unsecured debt may be reduced substantially or to zero. In addition, the Clients may pursue or enforce rights with respect to a particular issuer, or HPS may pursue or enforce rights with respect to a particular issuer jointly on behalf of certain Clients. There can be no assurance that the term of or return on a Client's investment in an issuer will be equivalent to or better than the term of or returns obtained by the other Clients participating in such investment. Similarly, the ability of HPS to implement the Client's strategies effectively may be limited to the extent that contractual obligations entered into in respect of activities of HPS and/or its other

Clients impose restrictions on such Client engaging in transactions that HPS may be interested in otherwise pursuing.

As described above, to the extent a Client holds securities that are different (including with respect to relative seniority) than those held by another Client, HPS could have conflicting loyalties between its duties to such Clients. For example, HPS could have an incentive to cause a Client to pay a higher purchase price (whether in an auction, the exercise of a fair value purchase option or otherwise) for a loan or related property that is collateral for a security held by the other Client. If a Client makes an investment in or, through the purchase of debt obligations or otherwise becomes a lender to, an issuer in which another Client has an investment at a different level of such issuer's capital structure or if another Client participates in a separate tranche of a fundraising with respect to such issuer, HPS may have conflicting loyalties between its duties to such Clients.

The Clients that employ one investment strategy may be negatively impacted by the activities by or on behalf of Clients of another investment strategy, and transactions for the Clients that employ one investment strategy may be impaired or effected at prices or terms that may be less favorable than would otherwise have been the case had a particular course of action not been pursued with respect to the Clients that employ a different investment strategy. In certain instances personnel of HPS (including in the capacity as a director of a portfolio company of a Client) may obtain information about an issuer thereby limiting HPS's ability to buy or sell securities of the issuer on behalf of other Clients. These conflicts are magnified with respect to issuers that undergo restructuring or become insolvent. It is possible that in connection with a restructuring, insolvency, bankruptcy or similar proceeding the Clients may be limited (by applicable law, courts or otherwise) in the positions or actions they may be permitted to take due to other interests held or actions or positions taken by Clients of a different investment strategy.

Although it is expected that the Clients will, when they co-invest alongside one or more other Clients, generally dispose of their interests in an investment in the same proportion as, and on the same terms as, the other Clients dispose of their interests in such investment, subject to legal, tax, regulatory or other considerations, as determined by the relevant general partners or investment managers in their sole discretion, there can be no assurance that the interests in an investment held by the Clients will be harvested on as favorable terms as the interests in such investment held by the other Clients. Further, the disposal by another Client may depress the market value of the continuing investment of certain Clients or may reduce the price available to the Clients, which may also be disposing of their investment.

In addition, the terms of the Clients' investment, including the type of security purchased, may be different from the terms of another Client's investment or the type of security the Client purchases. Conflicts could arise after a Client, on the one hand, and other Clients, on the other hand, make investments in the same issuer with respect to the issuer's strategy, growth and financing alternatives and with respect to the manner and timing of the one Client's exit from the investment compared to the other Client's exit. Should one Client invest in a different type of security from the security purchased by another Client, additional conflicts may arise, particularly if the issuer experiences financial difficulties.

Certain Clients may also have short positions in the same security or instrument or a different security or instrument in the same issuer as a security or instrument purchased by other Clients, which may present additional conflicts, particularly if the issuer experiences financial difficulties.

### **HPS Fund or Third Party Fund Investments in HPS CLOs**

As discussed in Item 5 above, certain Clients may invest in one or more HPS CLOs. There are conflicts of interest associated with a Client's purchase of CLO securities issued by an HPS CLO. HPS may be incentivized to recommend an investment in an HPS CLO to enable it or its affiliate to launch such HPS



CLO and to encourage other market participants to invest in such HPS CLO. Conversely, where an HPS CLO is deemed to be an attractive investment opportunity for a Client, HPS may not be incentivized to invest such Client's capital in such HPS CLO, due to the fact that such investment would cause a reduction of collateral manager's fees. Where a Client owns a controlling position of the CLO equity of an HPS CLO, it may be in the Client's best interest to "call" the deal and cause the redemption of the CLO securities in certain circumstances, but it would be detrimental to the collateral manager of the CLO. Similar conflicts of interest exist in HPS's exercise (or failure to exercise) such Client's other rights as holder of such CLO equity.

### **Presentation of Investment Opportunities**

As described in the relevant Governing Documents, HPS expects to present investment opportunities to one or more Clients for which the investment is appropriate, considering such Clients' investment objectives and limitations, available capital, available leverage, investment horizon, expected investment pipeline, contractual allocation priority, account size, and applicable legal, tax, regulatory and other relevant considerations. However, as disclosed in the relevant Governing Documents, certain investment opportunities are not required to be presented to all Clients (such as "overflow" Clients established to receive allocation of investment opportunities to the extent of available capacity after allocation to certain other Clients), thus certain Clients will have priority over a particular category of investment opportunities. As a result, investment opportunities that may be appropriate for one or more of the Clients may not be made available to them by HPS. In addition, investment opportunities that are appropriate for multiple Clients shall be allocated between the Clients in accordance with the procedures described in the relevant Governing Documents and as discussed below.

After the formation of a successor fund, if the commitment period of the relevant predecessor fund has not yet terminated and such Clients have sufficient available capital to commit to new investments, new investment opportunities will be presented between the predecessor funds and successor funds in such manner that HPS and the relevant general partners or investment managers of the predecessor funds and successor funds determine in their reasonable discretion is appropriate in light of the circumstances of such investment opportunity, including the expected duration of such proposed investment, the amount of capital expected to be required for such proposed investment and the expected timing of the funding of such required capital.

The Clients may also partner with other entities in which the Affiliated Group holds an investment or with which the Affiliated Group has a significant business relationship as discussed in Item 10 above.

### **Investment Allocations**

Subject to applicable law, including, but not limited to, ERISA, HPS has developed policies and procedures that provide that it will allocate investment opportunities and make purchase and sale decisions among Clients in a manner that it considers, in its sole discretion and consistent with its fiduciary obligation to the Clients, to be fair and equitable over time. In many cases, these policies may result in the pro rata allocation of limited opportunities across Clients' accounts pursuing similar investment strategies (and to "overflow" Clients' accounts to the extent of available capacity), generally based on net asset value of the account or available or committed capital (in the case of a purchase) or position size held by the applicable Client accounts (in the case of a sale). In many other cases, however, the allocations may not be pro rata on such basis and may instead reflect numerous other factors based upon HPS's good faith assessment of the best use of such limited opportunities relative to the investment objectives, limitations, and requirements of each Client and application of a variety of factors, including those described herein. HPS seeks to treat all Clients reasonably in light of all factors relevant to managing an account, and in some cases it is possible that the application of the factors described below

may result in allocations in which certain Clients may receive an allocation when other Clients do not. In addition, as noted above, Clients should note that certain Clients have priority with respect to a particular investment strategy and that certain “overflow” Clients that are established to receive an allocation to the extent of investment capacity will not always receive an allocation of an investment opportunity that may be appropriate for its portfolio. Similarly, HPS may cause the liquidation of positions for Clients in its discretion in accordance with the foregoing principles. Such allocations or liquidations may benefit one Client over another or may be detrimental to one or more other Clients. Certain Clients may be restricted from making some types of investments due to: (i) regulatory prohibitions, such as with respect to “new issue” securities; (ii) prohibitions on investing in options or other contractual restrictions; or (iii) differing investment objectives, policies or risk parameters.

As mentioned above, due to specific guidelines and investment parameters for individual HPS Funds and any similarly managed Third Party Funds, pro rata allocations may not always be appropriate. Allocation decisions are also made dependent upon each HPS Fund’s or similarly managed Third Party Fund’s holdings, positioning and objectives at the specific time an allocation is made. Some of the factors that may be considered during the allocation process include, but may not be limited to, investment strategies, investment guidelines and restrictions, concentration limits, tax and regulatory issues, the nature and size of existing portfolio holdings, portfolio cash positions, risk/return objectives (and availability of leverage for certain investments to meet such investment objectives), liquidity constraints (including the applicable Clients’ wind-down and ramp-up periods, remaining investment period, and termination or redemption terms), round-lot position size, availability of counterparty relationships needed to effect the transaction, and management of potential or actual conflicts of interest by HPS. As a result, HPS may exercise a certain level of discretion during the allocation process and will accompany an allocation decision with an appropriate explanation of such decision.

### **Co-Investment Allocations**

If the amount of an investment opportunity available to the HPS Funds and Third Party Funds that are generally established to receive primary allocation of investment opportunities associated with an investment strategy or similar investment strategies, as determined by HPS (referred to together within this section as the “**Primary Funds**”) exceeds the amount desired to be invested by the Primary Funds, as determined by HPS and the relevant general partners or investment managers, co-investment opportunities may be made available to one or more HPS Funds or Third Party Funds of a different investment strategy, the Affiliated Group or any third parties, including sourcing partners or operating partners (referred to collectively within this section as “**Co-Investors**”). In this situation, investments will be allocated among the Primary Funds and any applicable Co-Investors taking into account such factors as the available capital, applicable diversification criteria, investment objectives, expected investment pipeline, size of the investment opportunity, whether the investment represents a follow-on investment for one or more of the entities, and legal, tax and regulatory considerations. Accordingly, the allocation of an investment to the Primary Funds may vary between HPS’s (or its affiliates’) and the relevant general partner’s identification of an investment opportunity and the consummation of such investment opportunity. For example, the allocation to the Primary Funds may increase or decrease depending on HPS’s (or its affiliates’) or the relevant general partner’s ability to identify and consummate co-invest transactions in such timeframe. As explained in the relevant Governing Documents, HPS may, subject to legal, tax, regulatory and other considerations, permit one or more Co-Investors to participate, on a preferred basis, in co-investment opportunities alongside the Primary Funds, where participating Co-Investors will have increased (and potentially disproportionate) exposure to the relevant investment. Such Co-Investors may have significant relationships with HPS or its affiliates, which could present certain conflicts of interest. In particular, it is expected that certain Co-Investors (including entities controlled by or affiliated with the relevant general partners, HPS, and their respective affiliates, as well as strategic investors and third parties, including sourcing partners or operating partners) will be granted preferential

co-investment rights, especially if such Co-Investors commit capital to co-investment opportunities and grant HPS or its affiliate discretion to select co-investments, are otherwise advisory Clients of HPS or its affiliates focusing on the same or different investment strategy (including “overflow” Clients established to receive allocation of investment opportunities to the extent available following allocation to the Primary Funds and/or certain other Co-Investors), have in the past demonstrated the willingness and ability to review and consummate co-investments within the required timeframe, or have a significant or strategic relationship with the Affiliated Group (such as sourcing or operating partners or strategic investors).

In some cases, HPS may invite strategic investors to co-invest with the Primary Funds because, for example, co-investing with a strategic investor may provide the Primary Funds or the portfolio company in which the Primary Funds invest with certain benefits. Strategic investors may include investors controlled or affiliated with the Affiliated Group or investors with large or long-standing relationships with HPS. In such cases, the amount available for investment by the Primary Funds may be correspondingly reduced to permit a strategic investor the opportunity to co-invest. In some cases, co-investment opportunities may be offered on a fee-free basis and in other cases, participation in co-investments may be subject to a carried interest and/or management fee.

HPS has the discretion to grant co-investment rights and to determine the terms of any co-investment by the HPS Funds or Third Party Funds, and the terms on which the Affiliated Group, strategic Co-Investors and other Co-Investors may co-invest in an investment opportunity may be substantially different, and potentially more favorable, than the terms on which the Primary Funds invest. Generally, Co-Investors will invest in a transaction directly alongside the Primary Funds. In some cases, certain Co-Investors, including strategic Co-Investors and sourcing partners and operating partners engaged with respect to the Primary Funds, may have different exposure to a portfolio company than the Primary Funds, for example, by investing in different tranches or instruments of the issuer’s capital structures in varying proportions. In addition, on occasion, one or more of the Primary Funds, particularly, a domestic HPS Fund or Third Party Fund, in order to consummate a transaction and to ensure the Primary Funds are afforded an investment opportunity or otherwise, may fund on behalf of certain Co-Investors and sell down a portion of the investment to such Co-Investors at a later time. The Primary Funds may or may not receive compensation for such activities. In the event that the Co-Investors breach their covenant to purchase the investment from the Primary Funds, the Primary Funds may have an allocation to an investment that is larger than originally anticipated.

Where the Primary Funds co-invest alongside one or more Co-Investors, including the Affiliated Group, HPS will determine the appropriate allocation of investment-related expenses, including broken-deal expenses incurred in respect of unconsummated investments, among the Primary Funds and such Co-Investors. The allocation of such expenses may not be pro rata based on the portion of a particular investment that each vehicle makes or would have made had the deal closed. For example, in a situation where the Co-Investor seeks to participate in an investment on an overflow basis, such Co-Investor may not bear broken deal or other expenses related to the investment, in which case the Primary Funds may bear a disproportionately large share of such expenses.

#### **Delayed Draw and Revolver Investment Allocations**

As discussed in Item 8 above, the Clients may make delayed draw or revolver investments with funding obligations that extend past the initial date of investment. Later funding obligations related to a delayed draw or revolver investment may not be allocated pro rata among all Clients that participated in the initial funding of an investment. In particular, the Clients may participate in the initial funding of an investment, but may not participate in later funding obligations (i.e., delayed draw portions) related to such investment, including because it is not advisable that such Client reserve additional uninvested capital for

future drawdowns, as determined in HPS's sole discretion based on factors including such Client's existing unfunded commitments relative to remaining investable capital, investment period, overall duration, and risk/return targets. As a result, certain of the Clients may be allocated a smaller or larger portion of delayed draw or revolver investments than other Clients participating in the investment. Clients that participate in the initial funding of an investment may receive certain economic benefits in connection with such initial funding, such as original issue discount, closing payments, or commitment fees and these benefits are expected to be allocated based on participation in the initial funding, regardless of participation in future funding obligations. In addition, where the Clients and any other participating investors have not participated in each funding of an investment on a pro rata basis, conflicts of interest may arise between the Clients and the other investors as the interests of the Clients and the other investors may not be completely aligned with respect to such investment. Such conflicts would become acute if the portfolio company experiences financial or operational challenges at the time a future drawdown occurs.

### **Follow-On Investment Allocations**

As discussed in Item 8 above, the Clients may participate in a follow-on investment of an Affiliated Group Account, where the Clients have not previously invested in the applicable portfolio company. Any such follow-on investment would present conflicts of interest, including in HPS or its affiliate's negotiation of the terms of such follow-on investment, and raises the risk that the Clients' capital may be used to support an Affiliated Group Account's existing investment. In addition, from time to time, the Clients may participate in the recapitalization of a portfolio company in which an Affiliated Group Account has invested. Recapitalization transactions will present conflicts of interest, including determinations of whether the Affiliated Group Account is being redeemed from an investment with a negative outlook (and whether the Clients are supporting such exit with their investment), and whether the Clients are paying a higher or lower price than market value or transacting on terms that are more or less favorable than in other comparable transactions. Conversely, the Clients' investment may be refinanced by an Affiliated Group Account which may have the effect of shortening the duration of an attractive investment.

### **Multiple Trading Desks and Similar Strategies**

HPS has multiple trading desks, which are utilized by different portfolio managers and managed by different traders. As noted in Item 8 above, HPS employs a variety of trading and investment strategies pursuant to which the Clients are managed. One or more of the portfolio managers of HPS may invest similarly (either by strategy or security type, etc.) to that of one or more of another portfolio manager of HPS. The existence of similar strategies employed by multiple portfolio managers utilizing multiple trading desks may result in the trading desks placing simultaneous competing orders and/or opposite orders for the same or similar securities, which could cause one or more adverse consequences, including, among other things, paying a higher price or receiving a smaller allocation, for the Clients. The existence of similar strategies employed by multiple portfolio managers utilizing multiple trading desks may also result in opposite and/or subordinated positions being held in the same issuer's securities due to the individual portfolio manager's conviction and the applicable investment guidelines for the Clients, which may present additional potentially adverse consequences, especially if the issuer experiences financial difficulties.

## **Item 12 - Brokerage Practices**

### **Selection Criteria, Generally**

In general, Clients will invest directly or indirectly in securities and other interests. Subject to any limitations set out in the relevant Governing Documents with Third Party Funds, HPS may select any broker or dealer and has a formal review process to approve such relationships. HPS, as an investment adviser, is under a duty to obtain “best execution,” which the SEC generally describes as a duty to execute securities transactions so that a Client’s total costs or proceeds in each transaction are the most favorable under the circumstances. This duty generally begins with a requirement that HPS obtain the best price available for the securities in each transaction. However, HPS may not always pay the lowest possible commission or markup or markdown, but may take into account a number of factors when determining best execution, including, but not limited to, a broker’s trading expertise, reliability, responsiveness, reputation, execution, clearance, settlement and error correction capabilities, willingness to commit capital, access to a particular trading market, availability of securities to borrow or short sales, and the value of research it provides. HPS may give consideration to certain of these factors more than others in choosing brokers depending on the particular investment strategy at issue. HPS conducts periodic reviews of the execution quality provided by broker-dealers used by HPS. HPS may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than solely relying on receiving the most favorable execution.

### **Soft Dollars**

HPS is not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. HPS may consider the value of research services or products that a broker-dealer provides to its Clients. Because many of those research services could benefit HPS and other Clients of HPS, a conflict of interest may exist in allocating a Client’s brokerage business. HPS intends to comply with Section 28(e) of the Securities Exchange Act of 1934, as amended, except with respect to securities transactions for which Section 28(e) is unavailable. Under Section 28(e), HPS’s use of a Client’s commission dollars to acquire research products and services is not a breach of its fiduciary duty to the Client—even if the brokerage commissions paid are higher than the lowest available—as long as (among certain other requirements) HPS determines that the commissions are reasonable compensation for both the brokerage services and the research acquired. The types of research HPS acquired during the last fiscal year include, but is not limited to: reports or other information about particular companies or industries; economic surveys and analyses; recommendations as to specific securities and financial publications. The “safe harbor” under Section 28(e) applies to the use of a particular Client’s “soft dollars” even when the research acquired is used in making investment decisions for other Clients. Conversely, the research information provided to HPS by brokers through which other Clients of HPS or its affiliates effect securities transactions may be used by HPS or its affiliates in providing services to other Clients. The safe harbor is not available where transactions are effected on a principal basis with a markup or markdown paid to the broker-dealer, and is not available for services or products that do not constitute research. Additionally, the safe harbor is not applicable to futures transactions. HPS does not currently engage in any third party soft dollar arrangements.

### **Prime Brokers**

Prime brokers may provide a variety of services to Clients of HPS, which may include clearance and settlement of transactions, placement agent services, custody of the Clients’ investment instruments and cash, extending margin credit to Clients, arranging for stock loans to implement short sales, lending of the Clients’ portfolio securities to third parties and capital introduction services whereby HPS may be afforded the opportunity by the prime brokers to make a presentation regarding its services to certain

qualified investors. While the prime brokers and/or their affiliates generally provide capital introduction services at no additional cost and certain other services at favorable or below market rates, HPS, and not the Client, may be the principal or sole beneficiary of those services, thus presenting a potential conflict of interest between the Client and HPS, which is responsible for selecting the prime brokers and negotiating such Client's brokerage, margin and other fees. HPS may have brokerage relationships with other Clients of HPS, which may benefit such other Clients, thus presenting a potential conflict of interest between such other Clients and HPS.

HPS does not currently have any Clients that engage in direct brokerage.

### **Aggregation**

Aggregation (or "bunching") describes the practice of combining the orders of more than one Client for the purchase or sale of the same security. HPS may employ this practice because generally, larger transactions may enable HPS to obtain better overall prices, including lower commission costs or mark-ups or mark-downs, as applicable. It is HPS's policy to generally aggregate Client trades when doing so is practicable, administratively efficient or would reduce transaction costs. Where aggregate trades have been filled during the course of the trading day at different prices, the costs of the security to each Client will generally be average-priced to the extent possible. Additional information with respect to investment allocation decisions is discussed above in Item 11.

### **Trade Errors**

Although HPS exercises due care in making and implementing investment decisions, employees of HPS may from time to time make errors with respect to trades made on behalf of a portfolio. Examples of trade errors include: (i) the placement of orders (either purchases or sales) in excess of the amount of securities HPS intended to trade; (ii) the sale of a security when it should have been purchased; (iii) the purchase of a security when it should have been sold; (iv) the purchase or sale of the wrong security; (v) the purchase or sale of a security contrary to explicit regulatory restrictions or portfolio investment guidelines or explicit restrictions; and (vi) incorrect allocations of securities. Errors that do not result in transactions for a portfolio (such as those that result in a loss of an investment opportunity) will not be viewed as trade errors. HPS will not be liable to a portfolio for any trading losses, liabilities, damages, expenses or costs resulting from trade errors by HPS except those losses, liabilities, damages, expenses or costs (i) resulting from HPS's intentional misconduct, bad faith or gross negligence or (ii) that may not be waived or limited under applicable law. When determining whether a trade error is the result of gross negligence or not, HPS does not determine whether the individual trading error resulted from HPS's gross negligence *per se*; rather, HPS considers if its supervisory procedures were inadequate to prevent such trading errors from recurring with any frequency. HPS will be conflicted when making such decision.

### **Item 13 - Review of Accounts**

The risk exposures, trading activity, and profit and loss of HPS portfolios are reviewed daily by the risk and finance teams who report to HPS's Chief Financial Officer (who also serves as Chief Risk Officer of HPS). In addition, a detailed valuation process for illiquid assets is conducted on either a monthly or quarterly basis and is audited annually by an independent third party. The HPS Valuation Committee meets quarterly to monitor valuation policies and to seek to ensure consistent application of the policies among Clients. HPS investment professionals also conduct portfolio reviews on no less than a monthly basis. Additionally, in conjunction with the HPS Risk teams, the Compliance Department conducts routine reviews of trading activity in Client accounts. Transactions are reviewed to ensure compliance with internal policies and procedures, applicable regulatory limitations and certain investment guidelines.

On a daily basis the Operations teams within HPS are responsible for reconciling transactions executed to ensure the accuracy of the books and records of HPS. As discussed in Item 10 above, certain HCM employees, as part of the Transition Services Agreement, may also provide supplementary support to the HPS Operations teams.

Shareholders or limited partners of HPS Funds and Third Party Funds will generally be sent written monthly and/or quarterly performance statements setting forth customary information and certain additional information as agreed between certain shareholders or limited partners and HPS. In addition, each shareholder and limited partner of the HPS Funds will receive written annual reports containing audited financial statements and other indicia of performance. Certain Third Party Funds receive a daily transaction report for the purposes of daily portfolio reconciliation. HPS may provide Clients with additional information on an as requested basis. Additionally, certain Third Party Funds receive additional reports, the frequency and details of which are set out in the relevant Third Party Fund's relevant Governing Document.

#### **Item 14 - Client Referrals and Other Compensation**

Placement agents, including solicitors, who refer investors to HPS Funds or Third Party Funds, are paid separately by HPS. Such placement agents include, but are not limited to, J.P. Morgan Institutional Investments Inc. and its affiliates (collectively, “JPMII”) and certain affiliates of the brokers of certain Clients, as well as other unaffiliated placement agents. Certain placement agents receive fees directly from certain investors subscribing for shares/interests in HPS Funds or Third Party Funds in addition to any compensation received from HPS as discussed above in Item 10. The cost of such fees will typically be borne by such investors in addition to their capital commitments. However, to the extent permitted by applicable law (including ERISA), the Clients are expected to indemnify such placement agents under certain circumstances.

Conflicts of interest may exist with respect to the use of placement agents as they will receive compensation from HPS in connection therewith. With respect to JPMII, as stated above, JPMII will be compensated directly by certain investors subscribing for interests in an HPS Fund or Third Party Fund, the cost of which will be borne by such investors in addition to their capital commitments. The potential for placement agents affiliated with JPM to receive (directly or indirectly) compensation in connection with the investors’ subscriptions for interests in HPS Funds and Third Party Funds creates a conflict of interest in recommending that the potential investors purchase such interests. In addition, JPM, as an owner of a non-voting minority interest in HPS, indirectly benefits from the services of JPM placement agents which place interests in HPS Funds and Third Party Funds, by increasing the assets upon which HPS receives fees from the Clients. However, because JPM’s interest in HPS has been reduced pursuant to the Transaction discussed in Item 4 above, and JPM and its affiliates, including JPMII, may no longer benefit to the same degree from the success of such HPS Funds or Third Party Funds, JPMII may have a reduced incentive to place investors in certain HPS Funds or Third Party Funds. Conversely, the remuneration related to investors’ subscriptions for interests in HPS Funds or Third Party Funds may be greater than that of other products that JPMII is offering, and, accordingly, JPMII may have a disproportionate incentive to market HPS Funds and Third Party Funds.

Compensation to placement agents, if any, will be in accordance with Rule 206(4)-3 under the Advisers Act.



## **Item 15 - Custody**

HPS does not generally maintain custody of Client funds or securities except with respect to certain Clients managed by HPS where HPS or its affiliate acts as general partner for such entity. HPS is subject to the audit provision of Rule 206(4)-2 under the Advisers Act with respect to certain of the Clients over which it has custody and delivers audited financial statements to the investors in such Clients within 120 days of the applicable fiscal year-end. In addition, the assets of such Clients over which HPS has custody are held by qualified custodians in accordance with Rule 206(4)-2.

An independent auditor has been engaged for certain of the HPS Funds to verify the funds and securities of said HPS Funds by actual examination at a time chosen by the independent auditor without prior notice to HPS (“**Surprise Examination**”). The independent auditor’s report is publicly available at the website provided on the cover page of this brochure.

**Item 16 - Investment Discretion**

HPS has discretionary authority to manage the securities portfolios of its Clients pursuant to investment management agreements with such Clients, which customarily do not place limitations on HPS's authority to manage a Client's portfolio, except in limited circumstances where certain Third Party Funds have consent and/or opt out rights with respect to certain investments based on the terms agreed to within their Governing Documents. HPS's discretionary authority is generally subject to such restrictions as set forth in each Client's Governing Documents or agreements with such Client and/or the rules and regulations of any exchange or market on which HPS trades securities on behalf of its Clients. For certain Clients, an investment committee exists that collectively has discretionary authority over investment decisions for the applicable Client.

## **Item 17 - Voting Client Securities**

Although generally not applicable to HPS's business, HPS has the authority to vote Client securities on behalf of HPS Funds and certain Third Party Funds. The proxy voting procedures for HPS is designed to address the resolution of any conflicts of interest that may arise in connection with proxy voting. HPS is responsible for voting and handling all proxies in relation to the securities held on behalf of the Clients. At times, a portfolio manager may determine to vote a proxy contrary to a proposed vote. In such instances, the portfolio manager is required to confirm to the Compliance Department that no material conflict of interest exists personally or with HPS.

Clients may obtain a copy of the procedures for HPS and information about how HPS voted a Client's proxies by contacting the Compliance Department at (212) 287-6767.

**Item 18 - Financial Information**

HPS is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.